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2008



Report of the
Auditor General
of Canada
to the House of Commons

MAY

A Message from the Auditor General of Canada Main Points—Chapters 1 to 8





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The May 2008 Report of the Auditor General of Canada comprises A Message from the Auditor General of Canada, Main Points—Chapters 1 to 8, and eight chapters. The main table of contents for the Report is found at the end of this publication.

The Report is available on our website at www.oag-bvg.gc.ca.

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To the Honourable Speaker of the House of Commons:

I have the honour to transmit herewith my first Report of 2008 to the House of Commons, which is to be laid before the House in accordance with the provisions of subsection 7(5) of the *Auditor General Act*.

Sheila Fraser

Sheila Fraser, FCA Auditor General of Canada



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A Message from
the Auditor General of Canada— May 2008



Sheila Fraser, FCA Auditor General of Canada

## A Message from the Auditor General of Canada—May 2008

This Report addresses a variety of issues that affect the daily lives of many Canadians, from infectious diseases to the cost of entering a federal park to the safety of air travel. Here is a brief overview.

# Special Examinations of Crown Corporations — An Overview

#### Are Crown corporations properly managing their resources?

This Report contains a chapter on a part of our audit practice not frequently reported to Parliament, our special examinations of Crown corporations. The chapter also summarizes key findings of the 11 special examinations reported to Crown corporations since January 2006. This is the first time we have included such summaries in a Report to Parliament.

Unlike our performance audits of federal departments and agencies, special examinations are reported to Crown corporation boards of directors, rather than to Parliament. Very few special examination reports were released to the public until recently, and they have rarely been the subject of parliamentary hearings.

In its March 2004 Budget, however, the Government of Canada announced its intention to require that Crown corporations post special examination reports by the Auditor General on their websites. All 29 of the Crown corporations examined since then have done so. Now that these reports are public, we are bringing them to Parliament's attention in an overview of our special examination practice.

Crown corporations form a significant part of the federal public sector. They deliver important public programs in many sectors of the Canadian economy, including transportation, financial services, and culture. They employ about 90,000 people, manage more than \$185 billion in assets, and have long-term liabilities of about \$145 billion.

A special examination provides independent assurance to the board of directors of a Crown corporation that systems and practices are in place to ensure that

- the corporation's assets are safeguarded and controlled,
- · its resources are managed economically and efficiently, and
- its operations are carried out effectively.

Any major weakness in the corporation's key systems and practices that could prevent it from achieving these objectives is reported as a significant deficiency. I am pleased that since our last report on Crown corporations in 2000, we have seen a marked decline in the number of corporations with significant deficiencies.

The publication of special examination reports provides an opportunity for parliamentary committees to examine the operations of Crown corporations and to hold them accountable. We intend to provide Parliament with annual summaries of the key findings of special examinations conducted during the previous year.

# Management of Fees in Selected Departments and Agencies

### Are fees being managed appropriately?

The federal government charges the public and industry diverse fees for goods such as certain government publications, services such as inspections, or the use of facilities such as a park campsite. It also charges for the right or privilege to use publicly owned or managed resources—the fee for a commercial fishing licence, for example. In the 2006–07 fiscal year, federal departments and agencies reported collecting about \$1.9 billion in fees for everything from passports to licences for manufacturing pharmaceuticals.

The government must consider the value of a right or privilege in determining the fee to charge for it. However, in determining what fee to charge for a good (or service, or use of a facility), the government must consider the cost of providing it—and while the government may choose to charge less than that cost, it cannot charge more. In addition, it should document any other factors considered in determining fees.

We found that the methods used to establish the fees we examined varied significantly, notably the methods either to determine the cost of providing a good, service, or use of a facility, or to determine the value of a right or privilege. Some organizations had captured the full cost or the current value, while others had not. This means that some departments and agencies may not have the necessary information available when determining how much to charge.

We also found that Foreign Affairs and International Trade Canada allocated to the consular services fee (included in the cost of an adult passport) costs for activities beyond those outlined in the original approval of the fee. Using a method consistent with the original fee approval, we identified a trend of fee revenues in excess of costs.

### Support for Overseas Deployments

# How well does the National Defence supply chain respond to the needs of the troops in Afghanistan?

National Defence support to the mission in Afghanistan is essential to ensuring that troops have the supplies and services needed to conduct operations. We examined whether the Department has been able to meet the needs of the mission as it has evolved.

We found shortcomings in the supply chain that have contributed to delays in moving supplies to Afghanistan. In addition, the system does not provide enough information to track the arrival and whereabouts of all supplies. This has resulted in losing track of some items needed for operations and an increased risk of loss. We also found that some key equipment has been difficult to maintain because of spare parts shortages and reduced stocks as equipment begins to wear out.

Despite the problems we identified, National Defence has been able to deliver its equipment and supplies to troops in Afghanistan who need them. But this was often due more to the concerted efforts of personnel than to the system's design. A growing number of contract support personnel have also been needed for maintenance and other services that help keep operations going. Unless the problems we found can be resolved, National Defence could find it increasingly difficult to support the mission.

### Oversight of Air Transportation Safety

# How well is Transport Canada managing the shift to a new system of safety oversight?

Transport Canada is the first national regulatory authority in the world to introduce regulations requiring aviation companies to implement safety management systems (SMS). The new approach to air transportation safety is a requirement of the International Civil Aviation Organization (ICAO) for all member countries by 2009. According to ICAO, the rapidly expanding aviation industry and the limited resources of oversight authorities make it increasingly difficult to sustain the existing approach to managing safety. Under the new approach, Transport Canada's focus will shift from traditional oversight, such as conducting inspections and audits, to assessing the safety systems that companies have in place.

We examined Transport Canada's management of the transition to the new approach for the first sectors to make the shift. We did not examine the level of air transportation safety in Canada. Nor did we look at security—that is, protection against deliberate acts of terrorism.

Transport Canada conducted pilot projects with airlines and small operators and developed appropriate procedures for implementing SMS. The first two phases of the four-phase approach to SMS—implementation by airline operators and associated aircraft maintenance companies—are now complete.

We found that in planning the transition, the Department did not document risks, such as the impact of the transition on oversight of air transportation safety, or identify actions to mitigate the risks. Nor did it forecast the overall costs of managing the change. In addition, it has not measured the impact of shifting resources from traditional oversight to the new approach.

We found that Transport Canada has not yet identified how many inspectors and engineers it needs, with what competencies, during and after the transition. It could find itself unable to recruit the right mix of skills when it needs them.

The next phase of the transition will involve many more companies than the first phase did. In order to manage it successfully, Transport Canada will need to address these weaknesses.

# First Nations Child and Family Services Program

How well does Indian and Northern Affairs Canada serve First Nations children under its Child and Family Services Program?

Children are among the most vulnerable people in society. We looked at child welfare services funded by Indian and Northern Affairs Canada (INAC) for First Nations children and families living on reserves.

At this time last year, over 8,000 First Nations children ordinarily resident on reserves were in the care of child welfare services funded by INAC. This number represents a little over five percent of children living on reserves and is almost eight times the proportion of children in care living off reserves. We found that the funding the Department provides to First Nations child welfare agencies for operating and administering child welfare services is not based on the actual cost of delivering those services.

We also found that INAC lacks assurance that the services funded by its Child and Family Services Program are culturally appropriate and reasonably comparable with those provided for children off reserves in similar circumstances. It also has limited assurance that the services are meeting provincial legislation and standards.

The Department needs to better support, manage, and oversee the program. It also needs to obtain better information on the outcomes for children receiving the services.

The Auditor General of British Columbia (BC) is presenting a separate report to the BC Legislative Assembly on BC's child welfare services to First Nations and Aboriginal children. Our audits were conducted concurrently to obtain a broader view and understanding of the problems and minimize duplication of effort.

# Surveillance of Infectious Diseases

# How well does the Public Health Agency of Canada track threats posed by infectious diseases?

The Public Health Agency of Canada is the federal organization responsible for the surveillance of infectious diseases. It was created in 2004, following the outbreak of SARS (severe acute respiratory syndrome) in Canada.

Effective surveillance of infectious diseases can lead to concrete actions, such as responding to outbreaks of food-borne illness, controlling insects that carry disease, and developing new vaccines. Well-informed and rapid public health actions can prevent and contain outbreaks, reduce the economic burden of infectious diseases, and ultimately save lives.

To obtain routine surveillance information, the Agency relies on the goodwill of the provinces and territories. However, due to gaps in its information-sharing agreements with them, it is not assured of receiving timely, accurate, and complete information. While a recent agreement with the province of Ontario re-established the routine flow of information about individual cases, there are no similar data-sharing agreements with other provinces and the territories.

With its partners, the Agency has laid the groundwork for sharing essential information in the event of a public health emergency. However, until critical arrangements are sorted out, it may be difficult for the Agency to obtain the information needed to prevent and respond to a disease outbreak. Faced with a public health threat that could affect other countries, the Agency may be unable to notify the World Health Organization within the times specified in the revised *International Health Regulations* and to keep it informed of subsequent events.

# Conservation of Federal Official Residences

### How well does the government conserve official residences?

The federal government provides official residences to the Governor General, the Prime Minister, the Leader of the Opposition, the Speaker of the House of Commons, and foreign dignitaries visiting Canada. The National Capital Commission (NCC) owns and manages the six official residences located in Ottawa-Gatineau, and Public Works and Government Services Canada manages the Governor General's secondary residence, La Citadelle, in Québec City.

Official residences are more than just housing for Canada's top political leaders; they are part of Canada's heritage, and, as such, they belong to all Canadians.

We found that the NCC has sound management practices to ensure that the official residences are conserved. However, the Governor General's residence (Rideau Hall) and the Prime Minister's residence (24 Sussex Drive) are showing signs of fatigue and wear. With federal funding it received in 2005, the NCC was able to undertake major repairs at Rideau Hall and to improve the condition of most other residences.

However, the Prime Minister's residence has not undergone any major renovations for more than 50 years. A number of elements, such as the windows, heating and air conditioning, and electrical and plumbing system, are nearing the end of their life cycle and are in poor condition. The NCC believes that rehabilitating the residence has become an urgent matter. This will be possible only if the NCC has prolonged access to the residence to complete the work, which it estimates would take 12 to 15 months, if there are no unexpected complications.

# Detention and Removal of Individuals

How well does the Canada Border Services Agency manage the detention and removal of individuals who enter Canada illegally or who pose a threat to Canadians?

Each year, thousands of people who meet Canada's immigration policy objectives enter the country legally. Thousands of others who gain access to Canada do not meet these objectives, and some may pose a threat to public safety and security. When the Canada Border Services Agency (CBSA) was created in December 2003, it was assigned responsibility for detaining foreign nationals and permanent residents believed to be a public risk and removing individuals found to be inadmissible to Canada. This was previously the responsibility of Citizenship and Immigration Canada (CIC).

Our audit followed a request by the Public Accounts Committee to report on whether the management of detentions and removals has improved under the CBSA since 2003, when we audited those activities as part of CIC's control and enforcement program.

Since our last audit, the Agency has made a number of improvements in its management of detentions and removals. It better estimates the number of outstanding cases and focuses on removing the higher-risk individuals. The Agency has improved its identification of risks and tracking of individuals ready for removal. However, there is a growing number of individuals whose whereabouts are unknown and who might remain in Canada illegally.

We also found that the Agency does not collect suitable information to determine whether its policies are consistently applied so that individuals, regardless of their location, receive consistent and fair decisions about their detention or release. While the Agency sometimes requires individuals to report their whereabouts as an alternative to detention, it does not monitor the level of compliance. This may result in undue risk to the public.

I hope that parliamentarians find the information in this report useful in their scrutiny of these important areas of government activity.



Main Points—Chapters 1 to 8





# Management of Fees in Selected Departments and Agencies

### Chapter 1

### **Main Points**

#### What we examined

Federal government fees can be charged to an individual or organization for a good, a service, or the use of a facility, such as a park campsite. Fees can also be charged for the right or privilege to use publicly owned or managed resources—the fee for a commercial fishing licence, for example.

We selected thirteen such fees established by six federal organizations responsible for a major portion of the fee revenue reported by the government: Citizenship and Immigration Canada, Fisheries and Oceans Canada, Foreign Affairs and International Trade Canada, Health Canada, Industry Canada, and the Parks Canada Agency. We looked at how these organizations established the cost of the fee and determined the amount to be charged for the fee; we also looked at how they measured, monitored, and reported on the performance of the fee-related activities. In addition, we looked at any related policy or guidance on fees that the Treasury Board of Canada Secretariat has provided to departments and agencies; we also looked at the scope and application of the *User Fees Act* passed in 2004.

### Why it's important

In their 2006–07 performance reports, federal departments and agencies reported a total of about \$1.9 billion in fees collected for everything from a passport to a licence for manufacturing pharmaceuticals. The amount charged for these fees must be related to the cost or the value of what is provided. In determining the amount to be charged for the fee, government organizations also need to consider, for example, what proportion of the cost or value is appropriately borne by the fee payer and what proportion by the general taxpayer through tax revenues.

Increasingly, fee payers are challenging the validity of fees, and courts have held that where a reasonable relationship could not be demonstrated between the fee and the cost or value of the fee, the fee represented an unlawful tax and, in a recent Supreme Court case, had to be repaid.

#### What we found

- For the cost-based fees we audited, the organizations varied from those with costing systems and practices that captured the full cost of fee-related activities to organizations that did not know the cost of related activities. The rationale for the amount charged for the fee also varied—for six of the fees, the organizations had a comprehensive rationale for the amount charged; the other fees had been based on factors unrelated to the recent cost or value of what was provided. As a result, organizations may not have all of the necessary information for determining the amount to be charged for the fee and whether there is a reasonable relationship to the cost or value of the fee.
- Foreign Affairs and International Trade Canada allocated to the consular services fee (included in the cost of an adult passport) costs for activities beyond those outlined in the original approval of the fee. These additional costs are for activities performed on behalf of other government organizations; some other fees for these particular costs are also levied separately. Following the Department's initial calculations, reported in its departmental performance report, our recalculations and the Department's showed that more was collected in consular fees than the cost of providing the related services. This means that the Department is at risk of appearing to have not determined the charge for the fee in a way that was consistent with a view to cost recovery, as its legislation requires. The Department has acknowledged that it needs to review the impact of the surpluses on the amount charged for the fee, as well as related issues.
- Many important accountability provisions of the *User Fees Act* cover only new fees and increased fees. This means that for the vast majority of fees set before the Act was passed, the organizations are not required to publicly report costs, performance standards, and performance information, or to reduce fees when service standards are not achieved.

The departments have responded. The departments agree with our recommendations. Their responses follow each recommendation throughout the chapter.



## Support for Overseas Deployments National Defence

### Chapter 2

### **Main Points**

#### What we examined

Canada's military role in Afghanistan since the end of 2003 has been to contribute to international security and, in particular, to the stability of the area. National Defence support to the mission is essential to ensuring that troops as well as civilians working alongside the military have the supplies and services they need to conduct operations and maintain readiness.

We examined whether the National Defence supply chain has been able to respond to the needs of the mission in Afghanistan as the mission has evolved. We looked at whether the supply system has been able to maintain adequate stocks for the repair and maintenance of military equipment, to track and control supplies as they move to Afghanistan through the supply chain, and to deliver items to those who need them when they are needed.

### Why it's important

Military operations cannot be conducted without logistical support that moves the right equipment to the right people at the right time. The ability to support operations dictates what the mission can do. The Canadian Forces' deployment to Kandahar, Afghanistan, is its largest overseas deployment since the Korean War. The supply chain needs to respond faster to more demanding situations in this mission than it has had to for previous overseas deployments. This mission has tested the ability of the Canadian Forces to support a major military operation when called upon to do so.

Canada is seen as a lead nation to the mission in Afghanistan and is self-supporting for the most part, although, like previous deployments, the Canadian Forces can also rely somewhat on support provided by allies. Canada is also providing medical services to other nations through the Canadian-led military hospital at Kandahar Air Field.

#### What we found

 National Defence has been able to deliver to troops its equipment and supplies that they need to do the job in Afghanistan. While we did note that commanders have expressed concerns over some supply chain shortcomings, we found no reports of supply chain problems that had significantly affected operations. This is largely

- because the high level of dedication and hard work of Canadian Forces personnel enabled them to deliver the needed support.
- While National Defence has been able to adapt and adjust to the supply chain problems our audit identified, unless the deficiencies are addressed, the Department's ability to provide timely and appropriate support could be at risk over time. For example, we found delays in moving needed supplies to Afghanistan and found that the supply system does not provide enough information to track the arrival and whereabouts of all goods. Some key equipment has been difficult to maintain because of spare parts shortages or reduced stocks as equipment begins to wear out. Support to the mission is being supplemented by a growing number of contract personnel for maintenance and other services to help keep operations going.

The Department has responded. The Department agrees with all the recommendations. Its detailed responses follow the recommendations throughout the chapter.



# Oversight of Air Transportation Safety Transport Canada

### Chapter 3

### **Main Points**

#### What we examined

Transport Canada's responsibilities for air transportation safety include promoting safety; developing regulations; and overseeing compliance with them by airlines, aircraft maintenance companies, manufacturers, airports, air traffic control, and other sectors of the industry. The Department is now adopting a new approach to oversight, based on the implementation of safety management systems (SMS). The approach will require aviation companies to have in place a system for managing the safety risks linked to their operations. Transport Canada's oversight role will change from one focused solely on conducting inspections and audits to one of assessing the processes that companies have in place for ensuring safety—although direct inspections and audits may still be carried out if necessary.

We examined how Transport Canada has managed the transition to the new approach for the first sectors to make the shift: airline operators and associated aircraft maintenance companies. We did not examine the level of air transportation safety in Canada. Nor did we look at security—that is, protection against deliberate acts such as terrorism.

### Why it's important

The civil aviation sector is a key element of Canada's transportation network and its economy. In 2006, air transport in Canada carried 99 million passengers, up 6 percent from 2005, and the number is expected to grow 40 percent from 2006 to 2015. According to the International Civil Aviation Organization (ICAO), the rapidly expanding aviation industry and the limited resources of oversight authorities make it increasingly difficult to sustain the existing approach to managing safety. ICAO has stated that by 2009, each member country must establish a safety program requiring aviation companies to implement a safety management system acceptable to the country's regulating authority.

For effective oversight, it is critical that the transition to the new approach be well managed, that oversight continue throughout the transition, and that Transport Canada understand and mitigate the risks inherent in the transition.

#### What we found

- As the first civil aviation authority to put in place regulations requiring aviation companies to introduce SMS, Transport Canada developed its own approach. For example, it conducted pilot projects with airlines and small operators and used the results to establish milestones. It also monitored activities and made adjustments to ensure that all regions applied procedures consistently. However, in planning for the transition, the Department did not document risks, such as the impact of the transition process on oversight of air transportation safety, and identify actions to mitigate these risks. Nor did it forecast the overall costs of managing the change.
- Resources have been shifted from traditional oversight activities to SMS activities. However, the Department has not measured the impact of this on the frequency of traditional oversight activities.
- Transport Canada has not yet identified how many inspectors and engineers it needs, with what competencies, during and after the transition. The impact of SMS is being addressed in the reorganization of the Department's Civil Aviation program, now under way. Given that this is not expected to be completed before the end of 2009, Transport Canada could find itself unable to recruit the right mix of skills when it needs them.
- The Department has not developed short- and medium-term performance indicators—those that could signal a need for closer attention or action in a particular area—to measure the impact of its civil aviation activities.

**Transport Canada has responded.** The Department agrees with all of our recommendations. Its detailed responses follow each recommendation throughout the chapter.

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# First Nations Child and Family Services Program

### Indian and Northern Affairs Canada

### Chapter 4

### **Main Points**

#### What we examined

Under federal government policy, Indian and Northern Affairs Canada (INAC) is responsible for supporting the provision of child welfare services for on-reserve First Nations children and families. The Department provides funding to First Nations, their child welfare agencies, and provinces to cover the operating costs of child welfare services on reserves and the costs related to children brought into care. These services are expected to meet provincial legislation and standards, be reasonably comparable with those provided off reserves to children in similar circumstances, and be appropriate to the culture of First Nations people. The policy also confirms the federal government's view that provinces have jurisdiction over the welfare of all children, including those living on reserves.

The audit examined the First Nations Child and Family Services Program of INAC. It also included, where relevant, the support available from other INAC programs and programs of other federal departments. The audit covered primarily the management structure and processes and the resources used to implement the government policy on First Nations child and family services on reserves. We interviewed officials of INAC and other departments and reviewed relevant files and documents. We also sought the views of First Nations and First Nations child welfare agencies and met with some provincial officials.

### Why it's important

Children are among the most vulnerable people in society. Some of the most vulnerable children in Canada are First Nations children. Information collected by INAC shows that the number of on-reserve First Nations children in care has grown considerably over the last 10 years, as have program expenditures. At the end of March 2007, about 8,300 First Nations children ordinarily resident on reserves were in care. This represents a little over 5 percent of all children residing on reserves (almost eight times the proportion of children residing off reserves). INAC spent \$270 million in 2007 to directly support on-reserve children placed in care and another \$180 million for the operations, including prevention, of child welfare services for First Nations.

#### What we found

- The funding INAC provides to First Nations child welfare agencies for operating child welfare services is not based on the actual cost of delivering those services. It is based on a funding formula that the Department applies nationwide. The formula dates from 1988. It has not been changed to reflect variations in legislation and in child welfare services from province to province, or the actual number of children in care. The use of the formula has led to inequities. Under a new formula the Department has developed to take into account current legislation in Alberta, funding to First Nations agencies in that province for the operations and prevention components of child welfare services will have increased by 74 percent when the formula is fully implemented in 2010.
- The Department has not defined key policy requirements
  related to comparability and cultural appropriateness of services.
  In addition, it has insufficient assurance that the services provided
  by First Nations agencies to children on reserves are meeting
  provincial legislation and standards.
- INAC has not identified and collected the kind of information it would need to determine whether the program that supports child welfare services on reserves is achieving positive outcomes for children. The information the Department collects is mostly for program budgeting purposes.

The Department has responded. Indian and Northern Affairs Canada agrees with all recommendations. In its response to each recommendation, the Department has indicated the action it has taken or will take.

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# Surveillance of Infectious Diseases Public Health Agency of Canada

### Chapter 5

### **Main Points**

#### What we examined

The Public Health Agency of Canada is the federal organization responsible for the surveillance of infectious diseases. It was created in 2004, following the outbreak of SARS (severe acute respiratory syndrome) in Canada.

The Agency defines surveillance as the ongoing, systematic use of routinely collected health data to guide timely public health action. To obtain the surveillance data it needs, the Agency works in concert with other federal departments and agencies and other levels of government, as well as health professionals, hospitals, and laboratories across the country.

We examined whether the Agency, in collaboration with its partners, has obtained, analyzed, and disseminated the information needed to help anticipate, prevent, and respond to threats of infectious disease. We also followed up on some serious concerns raised by our audits in 1999 and 2002, when surveillance of infectious diseases was the responsibility of Health Canada.

### Why it's important

Effective surveillance of infectious diseases can lead to concrete actions such as responding to outbreaks of food-borne illness, controlling insects that carry disease, and developing new vaccines. Well-informed and rapid public health actions can prevent and contain outbreaks, reduce the economic burden of infectious diseases, and ultimately save lives.

Canada's international obligation to report serious infectious diseases to the World Health Organization became more demanding with the recent strengthening of the *International Health Regulations*. Outbreaks of diseases such as SARS and the avian influenza have underscored the need for such reporting.

#### What we found

The Agency has surveillance systems in place to detect and monitor
existing and emerging infectious diseases in Canada, but fundamental
weaknesses noted in our 1999 and 2002 reports remain. We recognize
that there were competing demands associated with launching a new
organization and that the collaboration of its partners is necessary to

- achieve some results. However, while important steps have been taken to respond to our past recommendations, the Agency has not made satisfactory progress on those related to strategic direction, data quality, results measurement, and information sharing.
- To obtain routine surveillance information, the Agency relies on the goodwill of the provinces and territories. However, due to gaps in its information-sharing agreements with them, it is not assured of receiving timely, accurate, and complete information. A data-sharing agreement recently signed with Ontario re-established the regular flow of information about individual cases after two years when this flow was limited. However, the Agency has not reached similar data-sharing agreements with the remaining provinces and territories. This limits its ability to provide Canadians with a complete and consistent national picture of infectious diseases as a basis for public health actions.
- With its partners, the Agency has laid the groundwork for sharing essential information in the event of a public health emergency. However, critical arrangements—such as procedures for notifying other parties, and protocols affecting the collection, use, and disclosure of personal information—still need to be sorted out. The 2003 SARS crisis demonstrated why such arrangements were needed. Until these arrangements are in place, it may be more difficult for the Agency to obtain the information needed to prevent and respond to a disease outbreak. Consequently, faced with a public health threat that could affect other countries, the Agency may be unable to notify the World Health Organization within the times specified in the revised *International Health Regulations* and to keep it informed of subsequent events.
- The Public Health Agency and the Canadian Food Inspection Agency have not determined jointly which of the animal diseases that could affect people are the highest priorities for surveillance, and which of the two agencies will carry out surveillance of what diseases. Given that 65 to 80 percent of newly identified human diseases come from animals, it is important that these health risks to Canadians be well managed.

The Public Health Agency of Canada, Health Canada, and the Canadian Food Inspection Agency have responded. The Public Health Agency of Canada, Health Canada, and the Canadian Food Inspection Agency have agreed with our recommendations and are taking action to address the concerns raised in the chapter. Their detailed responses follow each recommendation throughout the chapter.



# Conservation of Federal Official Residences

### Chapter 6

### **Main Points**

#### What we examined

The federal government provides official residences to the Governor General, the Prime Minister, the Leader of the Opposition, the Speaker of the House of Commons, and foreign dignitaries visiting Canada. The National Capital Commission (NCC) owns and manages the six official residences located in Ottawa-Gatineau, and Public Works and Government Services Canada manages the Governor General's secondary residence, La Citadelle, in Québec City.

We examined the management practices that the NCC and Public Works and Government Services Canada have adopted to ensure the conservation of the official residences.

This audit was conducted at the same time as our special examination of the NCC in 2007. Most Crown corporations are subject to a special examination, which is a type of performance audit, every five years. The NCC posted our special examination Report on its website in November 2007.

### Why it's important

The official residences are more than just housing for Canada's top political leaders; they are part of Canada's heritage, and as such, they belong to all Canadians. They contribute to Canada's positive image abroad and are often a source of pride for Canadians who visit them. This is particularly true for the Governor General's residence, Rideau Hall, which was designated a national historic site in 1977. The official residences are used to fulfill official functions, such as welcoming foreign dignitaries and holding commemorative ceremonies and high-level work sessions. These require reception facilities and hospitality services on a scale not usually found in conventional homes. It is therefore important that they be equipped accordingly—with, for example, modern and efficient means of communication, access for persons with reduced mobility, and specialized kitchen services.

#### What we found

 The NCC has implemented sound management practices to ensure that the official residences are conserved. It regularly assesses the condition of the official residences and develops rehabilitation

- programs based on these assessments. The Commission keeps the occupants of the official residences informed of the condition of their residence and of the work that will be required to conserve it.
- Based on NCC information, Rideau Hall and the Prime Minister's residence (24 Sussex Drive) are showing signs of fatigue and wear. At Rideau Hall, the roof, windows, walls, and foundations—more than two thirds of the exterior of the residence—are in only fair condition and need repair.
- The NCC believes that rehabilitating the Prime Minister's residence
  has become an urgent matter. It expects the work to take 12 to
  15 months, if there are no unexpected complications. However, this
  will be possible only if the NCC has prolonged access to the
  residence to complete the needed work.
- The funding that the NCC received in 2005 enabled it to do a great deal of work on Rideau Hall and to improve the condition of the four other residences in the National Capital Region. Despite these improvements, the condition of many elements of these official residences is still only fair, and these residences need to be repaired in the next few years.
- Public Works and Government Services Canada uses sound management practices, such as a preventative maintenance program, to ensure the conservation of the residence at La Citadelle in Québec City.



## Detention and Removal of Individuals Canada Border Services Agency

#### Chapter 7

#### **Main Points**

#### What we examined

Under the *Immigration and Refugee Protection Act*, as amended in 2003, officers of the Canada Border Services Agency (CBSA) are authorized to arrest and detain permanent residents and foreign nationals at ports of entry and within Canada who have, or who may have, breached the Act. People can be detained if they pose a danger to the public, their identity is in question, or there is reason to believe that they will not appear for immigration proceedings. The Agency is also authorized to remove people found to be inadmissible to Canada. In 2006–07, it removed about 12,600 individuals, including about 1,900 criminals who posed a high risk to Canada.

Responsibility for detentions and removals was transferred from Citizenship and Immigration Canada to the CBSA when the Agency was created in December 2003.

We examined whether the CBSA and Citizenship and Immigration Canada (CIC) have clearly articulated their respective accountabilities for administering the *Immigration and Refugee Protection Act* and for reporting on the detention and removal of individuals. In addition, we looked at whether CBSA manages the detention of individuals consistently, in compliance with its policies and standards, and with due regard to economy. We also looked at whether it removes individuals from Canada based on the risks they present and at whether it does so cost-effectively.

We undertook this audit following a request by the Public Accounts Committee to report back on whether the management of detentions and removals has improved under the CBSA since 2003, when we audited those activities as part of CIC's control and enforcement program.

#### Why it's important

By detaining and removing those who would enter Canada illegally or who pose a threat to Canadians, the Canada Border Services Agency contributes to the safety and security of Canadians. In its detention and removal of those who are inadmissible, it also plays a key role in maintaining the integrity of Canada's immigration and refugee programs and ensuring fairness for those who come to this country lawfully.

#### What we found

- Since our last audit, the Agency has made a number of improvements in its management of detentions and removals. It better estimates the number of outstanding cases and it set up processes to help it focus its efforts on removing the higher-risk individuals. While the Agency has improved its identification of risks and tracking of individuals ready for removal, there remains a growing number of individuals who might be in Canada illegally—whose whereabouts are unknown—thereby jeopardizing the integrity of Canada's immigration program. The resources available for detentions and removals remain relatively unchanged since our last audit.
- The Agency's policies and standards for detaining individuals are broad and allow substantial latitude for decision making. We noted that the Agency's decisions to detain or release individuals from detention are not monitored adequately to determine whether individuals receive consistent and fair treatment. The Agency has established standards for the treatment of individuals while in detention, but does not ensure that these standards are met. Further, it does not analyze the extent to which individuals released on bond or on other terms comply with the conditions of their release.
- The Agency does not carry out certain aspects of detentions and removals with due regard to cost. Where it uses provincial detention facilities, it does not have signed agreements in place with most of the provinces to establish the cost and conditions of detention. The Agency has little information on removal costs at a national level. Few controls are in place to ensure that the decision to escort individuals being removed to their destination country is based on risk, and that these costs are properly monitored.
- Detentions and removals require good coordination between the Agency and Citizenship and Immigration Canada to fulfill their respective responsibilities. A memorandum of understanding (MOU) between the Canada Border Services Agency and Citizenship and Immigration Canada clearly articulates their respective accountabilities in detentions and removals. Each organization is currently reviewing its experience with the MOU to determine whether improvements are needed to support the delivery of the program.

The Agency and the Department have responded. The Canada Border Services Agency agrees with all of our recommendations. Citizenship and Immigration Canada agrees with the one recommendation addressed to it at paragraph 7.20. Their detailed responses follow the recommendations throughout the chapter.



# Special Examinations of Crown Corporations

An Overview

#### Chapter 8

#### **Main Points**

#### What we examined

Crown corporations form a significant part of the federal public sector. Federal Crown corporations employ about 90,000 people, manage more than \$185 billion in assets, and have long-term liabilities of about \$145 billion. These distinct legal entities, wholly owned by the government, are used to deliver important public programs. They operate in many sectors of the Canadian economy, including transportation, energy and resources, agriculture and fisheries, financial services, culture, and government services.

At least once every five years, Crown corporations, wholly owned directly by the Government of Canada (parent Crown corporations), that fall under the *Financial Administration Act* (FAA) undergo a special examination—which is a type of performance audit that the Auditor General of Canada carries out, as sole examiner in most cases and as joint examiner in a few cases. By February 2008, 44 Crown corporations were subject to the special examination requirement of the FAA.

In this chapter, we provide an overview of our special examination practice drawn from the special examinations we carried out between December 2002 and February 2008. We also look at the impact of legislative and other changes since December 2000 when we last reported to Parliament on our special examination practice. Finally, we provide summaries of the key findings of the 11 special examinations reported since January 2006.

#### Why it's important

A special examination is an important accountability mechanism. It provides independent assurance to the board of directors of a Crown corporation that systems and practices are in place to ensure that the corporation's assets are safeguarded and controlled; its financial, human, and physical resources are managed economically and efficiently; and its operations are carried out effectively.

Any major weakness in the corporation's key systems and practices that could prevent it from achieving its objectives is reported by the examiner as a significant deficiency.

#### What we found

- Fewer than 25 percent of the 37 special examinations covered in our overview found that the systems and practices examined had significant deficiencies. This is an improvement over our 2000 Report, when we noted that 48 percent of special examinations found significant deficiencies.
- The significant deficiencies identified by the special examinations covered in this overview related most often to problems in carrying out the corporation's mandate. The underlying causes were funding issues, a lack of strategic direction or clear expectations, or major gaps in the corporation's performance information.
- Special examination reports also bring opportunities for improvement to a board's attention. Special examinations have most often found those opportunities to be in the areas of corporate governance (including corporate and strategic planning), performance measurement, risk management, operations, and human resources management.
- In the March 2004 Budget, the government announced its intention to introduce a requirement that Crown corporations post special examination reports of the Auditor General on their websites. All of our special examination reports since then have been posted by the Crown corportations examined. These public reports represent an opportunity for Parliament to understand how the corporations operate and to increase accountability.
- Following a recommendation in the government's 2005 review of Crown corporation governance, Parliament amended the Financial Administration Act to increase the number of Crown corporations subject to special examination and to have the Office of the Auditor General carry out the examinations. The review recommended a more flexible system that would schedule the frequency of special examinations based on the level of risk inherent in the corporation's operations and that would require the tabling of special examination reports in Parliament. The Treasury Board of Canada Secretariat has informed us that the government is developing proposed legislative amendments that would provide for a more flexible risk-based approach to scheduling special examinations and would formally require that Crown corporations release reports to the public.

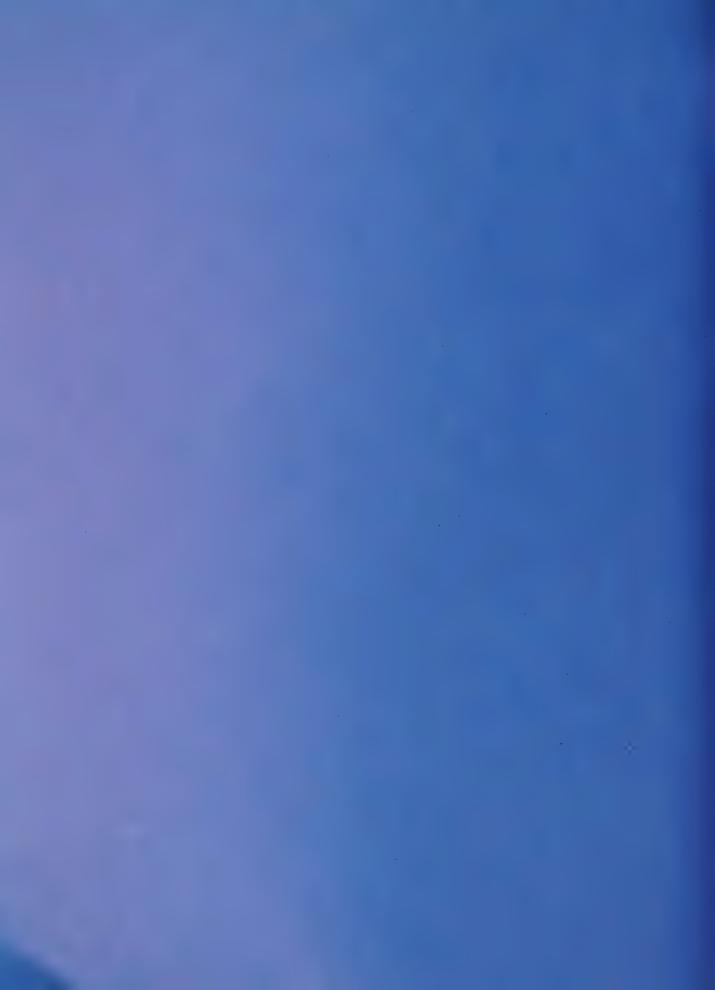
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2008



Report of the
Auditor General
of Canada
to the House of Commons

MAY

Chapter 1
Management of Fees in Selected Departments and Agencies





# 2008



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The May 2008 Report of the Auditor General of Canada comprises A Message from the Auditor General of Canada, Main Points—Chapters 1 to 8, and eight chapters. The main table of contents for the Report is found at the end of this publication.

The Report is available on our website at www.oag-bvg.gc.ca.

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# Chapter

Management of Fees in Selected Departments and Agencies



All of the audit work in this chapter was conducted in accord by The Canadian Institute of Chartered Accountants. While for our audits, we also draw upon the standards and practices	the Office adopts these standards as the minimum requirement
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# Management of Fees in Selected Departments and Agencies

#### **Main Points**

#### What we examined

Federal government fees can be charged to an individual or organization for a good, a service, or the use of a facility, such as a park campsite. Fees can also be charged for the right or privilege to use publicly owned or managed resources—the fee for a commercial fishing licence, for example.

We selected thirteen such fees established by six federal organizations responsible for a major portion of the fee revenue reported by the government: Citizenship and Immigration Canada, Fisheries and Oceans Canada, Foreign Affairs and International Trade Canada, Health Canada, Industry Canada, and the Parks Canada Agency. We looked at how these organizations established the cost of the fee and determined the amount to be charged for the fee; we also looked at how they measured, monitored, and reported on the performance of the fee-related activities. In addition, we looked at any related policy or guidance on fees that the Treasury Board of Canada Secretariat has provided to departments and agencies; we also looked at the scope and application of the *User Fees Act* passed in 2004.

#### Why it's important

In their 2006–07 performance reports, federal departments and agencies reported a total of about \$1.9 billion in fees collected for everything from a passport to a licence for manufacturing pharmaceuticals. The amount charged for these fees must be related to the cost or the value of what is provided. In determining the amount to be charged for the fee, government organizations also need to consider, for example, what proportion of the cost or value is appropriately borne by the fee payer and what proportion by the general taxpayer through tax revenues.

Increasingly, fee payers are challenging the validity of fees, and courts have held that where a reasonable relationship could not be demonstrated between the fee and the cost or value of the fee, the fee represented an unlawful tax and, in a recent Supreme Court case, had to be repaid.

#### What we found

- For the cost-based fees we audited, the organizations varied from those with costing systems and practices that captured the full cost of fee-related activities to organizations that did not know the cost of related activities. The rationale for the amount charged for the fee also varied—for six of the fees, the organizations had a comprehensive rationale for the amount charged; the other fees had been based on factors unrelated to the recent cost or value of what was provided. As a result, organizations may not have all of the necessary information for determining the amount to be charged for the fee and whether there is a reasonable relationship to the cost or value of the fee.
- Foreign Affairs and International Trade Canada allocated to the consular services fee (included in the cost of an adult passport) costs for activities beyond those outlined in the original approval of the fee. These additional costs are for activities performed on behalf of other government organizations; some other fees for these particular costs are also levied separately. Following the Department's initial calculations, reported in its departmental performance report, our recalculations and the Department's showed that more was collected in consular fees than the cost of providing the related services. This means that the Department is at risk of appearing to have not determined the charge for the fee in a way that was consistent with a view to cost recovery, as its legislation requires. The Department has acknowledged that it needs to review the impact of the surpluses on the amount charged for the fee, as well as related issues.
- Many important accountability provisions of the *User Fees Act*cover only new fees and increased fees. This means that for the vast
  majority of fees set before the Act was passed, the organizations are
  not required to publicly report costs, performance standards, and
  performance information, or to reduce fees when service standards
  are not achieved.

The departments have responded. The departments agree with our recommendations. Their responses follow each recommendation throughout the chapter.

#### Introduction

#### Government fees

- 1.1 The federal government charges the public and industry diverse fees, covering such things as licences for the manufacture of pharmaceuticals and permits for newcomers to study or work in Canada. The fees differ according to the good, service, or benefit provided, and to who pays the fee. Fees differ from taxes, as the charge is linked to what the individual or organization receives, beyond what the general public receives.
- 1.2 There are two categories of fees. The first category includes fees for goods, services, or the use of a facility; examples include the amount charged for a government publication (good), the charge for inspection services (service), and the cost to enter a federal park (use of a facility). For these fees, the amount charged is normally intended to recover all or part of the cost to the government (not only the organization concerned) of providing that good, service, or use of a facility.
- 1.3 The second category of fees includes those for rights or privileges, which mainly include authorization to use publicly owned or managed resources. Examples include a licence to fish commercially or to operate a business on federal property. The amount charged for these fees has normally not been related to costs but rather to the market value of the right or privilege, which can be determined by looking at equivalent fees or proxies (domestic or international) or by assessing a fee's potential value. The objective for these fees is to earn a fair return for Canadians from the rights or privileges granted by the government on behalf of all Canadians.
- 1.4 In the 1995 federal budget, the government announced a decrease in program spending and an increase in the use of fees to recover costs. One of the government's objectives in charging fees was to promote an approach to financing government programs that would fairly charge those who received a service or derived benefits beyond those general taxpayers enjoy. Another objective of the government was to ensure use of a government resource at a fair economic return to the general public. The 2003 federal budget further indicated that the government was committed to improving the approach to managing fees by calling for a more open, transparent, and accountable system of policies and practices.

1.5 During the 2006–07 fiscal year, federal departments and agencies publicly reported on some 220 fees in their departmental performance reports. Their figures indicate that these fees generated about \$1.9 billion in revenues, representing about one percent of all government revenue.

#### Managing and controlling fees

- 1.6 The authority and control framework for fees includes departmental legislation and regulations, the *Financial Administration Act*, the *User Fees Act*, and the Treasury Board Policy on Service Standards for External Fees. There is also the Treasury Board of Canada Secretariat's guidance, as well as relevant case law. In addition, fees can be charged under a minister's contracting authority. Departments and agencies are responsible for managing fees. The Treasury Board and its Secretariat provide policies, which are mandatory for departments and agencies to follow; provide advice and written guidance on sound practices; and collect information to identify broader issues related to fees.
- 1.7 Fees for a good, service, or the use of a facility can be set either in an enabling statute or by regulation when the enabling statute provides authority to the **Governor in Council** or minister to set fees by regulation. With respect to fees that are set in an enabling statute, that statute provides the express authority of Parliament to levy either a fee or a tax.
- 1.8 With respect to fees that are set by regulation, as Parliament cannot provide express authority to levy a tax by regulation, such fees cannot exceed the cost to the government of providing the good, service, or use of a facility. If a fee does exceed that cost, it can be declared an unlawful tax and the regulation can be declared outside the scope of its enabling statute. Under case law, this requirement that revenue from a fee not exceed its cost is normally interpreted to mean that there must be a "reasonable relationship" between the cost and the fee.
- 1.9 In 2004, Parliament passed the *User Fees Act*. A key objective was to enhance the role of parliamentarians with respect to fees, by permitting them, through committee, to review proposals for new fees or fee increases. Another objective was to give fee payers a stronger voice, by requiring consultation with stakeholders before fees are set or revised. Finally, the Act introduced reporting requirements for fees, as well as consequences for departments and agencies by mandating

Governor in Council—The Governor General acting on the advice of the Privy Council, as the formal executive body that gives legal effect to those decisions of Cabinet that are to have the force of law.

them to reduce fees that had been reviewed pursuant to the Act if they failed to meet service standards associated with the fees.

1.10 Increasingly, fee payers are challenging the validity of fees in the courts. It is important, therefore, given the application of relevant case law, that departments and agencies distinguish their fees from taxes, as any fee imposed by regulation could be subject to a court challenge. A reasonable relationship between the fee and its cost or value, whichever is relevant, is critical to establishing that such a fee is not a tax. Where there is no such reasonable relationship, there is a risk that, if challenged in court, the fee could be determined to be an unlawful tax. Moreover, a Supreme Court of Canada decision released in January 2007 held that a fee in New Brunswick that had been determined to be unlawful had to be repaid to fee payers. In the future, any other fee found to be unlawful may need to be repaid.

#### Focus of the audit

- 1.11 The audit focused on thirteen selected fees in five departments and one agency:
  - Citizenship and Immigration Canada,
  - Fisheries and Oceans Canada,
  - Foreign Affairs and International Trade Canada,
  - Health Canada,
  - Industry Canada, and
  - Parks Canada Agency.
- 1.12 The fees selected included five fees for goods, services, or the use of a facility and eight fees for rights or privileges, as outlined in the table on page 33 in **About the Audit** at the end of this chapter. We selected these fees to ensure that we examined a significant amount of the fee-based revenue the government generates. We also wanted to examine a variety of fee types and legislative authorities that established the fees.
- 1.13 In our audit, we also examined the role of the Treasury Board of Canada Secretariat with respect to these fees. We looked at whether the Secretariat provided departments and agencies with appropriate policy direction and guidance relevant to fees.
- 1.14 Our audit focused on whether there were appropriate systems and practices to establish costs for fees and to determine the amount to be charged for the selected fees. It did not include verification of the

specific cost or other information used to determine the amount charged for selected fees.

- 1.15 Subsequent to completing our audit work for this chapter, a Supreme Court of Canada decision released in February 2008 on a fee for a right and privilege has implications for fees for rights or privileges that are part of a regulatory program. As this decision was released after we completed our audit work, we did not consider the implications of this decision on the fees that we examined.
- **1.16** More details on the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

#### **Observations and Recommendations**

# Costs of fees and determining the amounts charged

- 1.17 In addition to the requirements of the legislation or regulation that sets the fee, the Treasury Board of Canada Secretariat's *Guide to the Costing of Outputs in the Government of Canada* advises departments and agencies to have a comprehensive understanding of the full costs related to fees for goods, services, or the use of a facility. Departments and agencies need not charge an amount that covers all or any specific part of the cost of providing goods, services, or the use of a facility, but, as previously explained, the amount normally may not exceed the cost of doing so.
- 1.18 When determining the amount to charge for goods, services, or the use of a facility, organizations must first identify all the activities associated with providing these items. They must then consider which organization costs (both direct and indirect), and relevant costs that other organizations incur, can be allocated appropriately to the particular good, service, or use of a facility. This process is often referred to as determining the full cost of providing the goods, services, or use of a facility associated with a fee. Contrarily, when determining the fee for a right or privilege, a critical aspect normally involves identifying the value (usually the market value) of that right or privilege.
- 1.19 In addition, based on our review of government policies related to fees and best practices for determining the amount to be charged for a fee, departments and agencies need to consider other factors, such as the following three key factors:
  - The benefit to the fee payer. This factor involves considering what proportion of costs or value the fee payer will bear, and what proportion the general taxpayer will cover through tax revenues. This is a challenging but key task to ensure that the fee payer

and the taxpayer carry fair burdens. If federal organizations undercharge fee payers for private benefits or services, the taxpayer bears a disproportionate share of the cost of providing those benefits or services, thereby subsidizing a private benefit. If organizations overcharge fee payers for benefits or services, the fee payers may be subsidizing benefits that are enjoyed by the general public.

- The relationship of the fee to changing conditions. This factor involves understanding how the amount to be charged for a fee may be affected by changes in program costs or market values, in the amount of benefits attributable to the fee payer, or in levels of program service. Periodically reviewing this relationship is critical to ensuring that, over time, an appropriate burden is carried by the fee payer and the taxpayer, and that the government receives appropriate revenues for the goods, services, or use of a facility, or for rights or privileges it provides.
- The effects of the fee. This factor involves considering how the fee can affect government programs or policies, or how the amount charged for a fee can affect demand or competitiveness.
- 1.20 These factors, along with information about full cost or value, may justify charging a certain amount for a fee; that amount may be less than the full cost or the value.
- 1.21 Accordingly, for selected fees, we expected to find that federal organizations would have put in place appropriate systems and practices to determine either the full cost of providing goods, services, or the use of a facility, or the value of a right or privilege. We also expected them to have done a comprehensive analysis to determine the amount charged, and to have periodically reviewed that analysis.

#### Capturing the full costs for the five cost-based fees varied

- 1.22 In addition to looking at the consular services fee (administered by Foreign Affairs and International Trade Canada), which is addressed later in this chapter, we examined one agency and three departments responsible for cost-based fees for goods, services, or the use of a facility: Parks Canada Agency, Citizenship and Immigration Canada, Fisheries and Oceans Canada, and Health Canada.
- 1.23 Parks Canada Agency. We found that the Parks Canada Agency is allowed to retain the fees collected at each park or historic site to fund activities at that location. The Agency's revenue management policy defines the framework for categorizing activities, and its

financial system matches full costs to the fees received for each of those activities.

- 1.24 Citizenship and Immigration Canada. We found that Citizenship and Immigration Canada has developed a cost management model that captures the costs of processing applications for immigrants for entry into Canada and allocates those costs to the corresponding fees. The Department had also requested information from other federal departments and agencies about the processing costs they incur relating to its fees, but some of these organizations had not provided the information to the Department during our audit. We noted that the costs the Department had already identified were higher than its fee revenue.
- Oceans Canada has a system to determine the full costs of activities performed by the Canadian Coast Guard, including the marine navigation services fee. In 2005, an internal audit found that while the system properly reported the overall total cost for the Department, the timeliness and reliability of fleet operational data, a key component used to allocate costs to the marine navigation services fee, needed to be improved. That audit further found that for shore-related activities, another component for allocating the cost to the fee, the quality and consistency of allocating costs varied significantly between sectors, regions, and responsibility centres. We also found that allocation of shore-related costs was based on subjective estimates, rather than on operational tracking of shore activities.
- 1.26 In our audit of Fisheries and Oceans Canada's commercial fishing licence fees, we found that, in our view, a fee for the registration of fishers and their vessels could be considered a fee for a good, service, or the use of a facility, rather than a fee for a right or privilege. This registration fee, unlike other commercial fishing licence fees, is not a fee for privileged access to a publicly owned or managed resource for business purposes, but rather functions as an administrative charge to recover the costs of processing applications. In 1995, when the fee was set, the Department estimated that revenue from registration was about \$5 million (currently estimated to be about \$2.6 million), but it did not identify any costs associated with the fee. As part of our audit work, we requested that the Department provide current information on the costs of fee-related activities, but it was not able to provide this information.
- **1.27** Recommendation. Fisheries and Oceans Canada should improve the reliability of the information used to allocate costs to the marine navigation services fee.

Fisheries and Oceans Canada's response. Fisheries and Oceans Canada accepts the recommendation. Since the internal audit of 2005, improvements have been made to clarify and update the business process related to the timeliness and reliability of the fleet operational data and the consistency of cost allocations. The Department is carrying out the Readiness Assessment project to prepare for the independent audited financial statements that are to be available by the 2010–11 fiscal year. The costing systems and processes will be reviewed, after which the Department will assess the actions needed and time required to improve the reliability of the information.

1.28 Recommendation. Fisheries and Oceans Canada should identify the costs associated with the registration fee for fishers and their vessels to ensure that the fee complies with all legislation, policies, and guidance associated with the fee, and take any necessary action to adjust the fee.

Fisheries and Oceans Canada's response. Fisheries and Oceans Canada accepts the recommendation. The Department has started identifying the costs associated with the issuance of fisher and vessel registrations for which fees are set under regulation. These costs will be compared to the revenues collected for the issuance of these registrations, and the Department will determine the necessary action to be taken, including adjusting the fees if required. Because of the complexity of the regulatory process, adjustments to fisher and vessel registration fees would be completed by 2011.

- 1.29 Health Canada. At the time of our audit, Health Canada did not know the full costs of the activities related to the medical marihuana fee. Although the fee was for a good and was to be cost-based, the Department did not have accurate figures on the cost of the fee activities when it set the fee. The Department had projected the cost of producing medical marihuana, but it lacked complete information about the costs of administering the program, of carrying out related regulatory affairs, and of conducting research. Shortly before our audit started, Health Canada hired an independent consultant to determine the full cost of the activities. A report completed in November 2007 stated that the full cost of the activities related to the medical marihuana fee was more than the fee charged.
- **1.30** Recommendation. Health Canada should improve its systems and practices for establishing costs of the activities related to the medical marihuana fee, to be able to accurately calculate the full cost of those activities on a periodic basis.

Health Canada's response. In the 2007–08 fiscal year, the Department developed the Corporate Cost Allocation Model (CCAM) and policies and guidelines to improve Health Canada's costing systems. Health Canada will apply the CCAM to determine the full cost of the Medical Marihuana Program and will also establish a schedule on which the full cost of the program will be recalculated. This will be completed in the 2008–09 fiscal year. Once completed, the Department will be in a position to report the full program cost.

#### The amount charged for six fees was based on a comprehensive analysis

- 1.31 Ministers are ultimately responsible for determining the amount to be charged for a fee for a good, service, or the use of a facility, or the fee for a right or privilege within their areas of responsibility. Departments and agencies are responsible for providing recommendations to ministers on the amount to be charged for fees, including ensuring that the requirements of the legislation or regulation that set the fee are met.
- **1.32** As we already noted, in addition to information on the cost of a fee for a good, service, or the use of a facility, or for the value of a right or privilege, federal organizations need to consider other factors in determining the amount to be charged for a fee (see paragraph 1.19).
- 1.33 We expected, therefore, that when determining the amount to be charged for a fee, selected organizations would have completed a thorough analysis of costs and other factors that affect the fee and would have updated that analysis periodically to ensure that the relationship between the fee and its cost or value remained reasonable. In the case of fees for rights or privileges, we expected that organizations would have explained their rationale for the amount to be charged for the fee by referring to market values or to a reasonable comparison with another jurisdiction. These analyses, along with consideration of the requirements of the legislation or regulation that set the fee, are important to demonstrate the fee's validity if it should ever be challenged before the courts.
- 1.34 Excluding the consular services fee, which we deal with separately, we found that complete and up-to-date analyses were prepared for six of the twelve fees that we examined.
- 1.35 Parks Canada Agency. We found that the Parks Canada Agency's entry fee kept pace with related program costs, and its real property fee, which is a right or privilege, kept pace with the value of the benefit received. The real property fee is based on either a

percentage of gross revenues or a percentage of appraised land value and is self-adjusting relative to related increases or decreases. The Agency has increased its park entry fee incrementally, through multi-year schedules submitted for review by Parliament, in accordance with the *User Fees Act*. For example, depending on the level of service provided, the range of increases for entry fees to national parks and national historic sites will run from \$.50 to \$4.50 over the four-year implementation period. This multi-year fee schedule provides the Agency with greater certainty as to revenues and allows fee payers to forecast future costs with certainty. Previously, the Parks Canada Agency froze fees for periods of up to five years and found that it became difficult to double fees in one year if the costs of providing services increased. In view of this multi-year approach, the Agency will need to monitor ongoing costs to ensure that the fee reflects any significant changes in those costs.

- In addition, we found that the Parks Canada Agency's fees were set following an analysis of the benefit to the fee payer. Specifically, the Agency analyzed the proportion of costs or value that fee payers and tax payers were to assume, and adjusted its fees accordingly. The Agency's User Fees and Revenue Management Policy sets out the principles of what constitutes a public (for example, preservation of a heritage site) versus private (for example, use of a campsite) benefit. The policy requires the Agency to finance its services and programs that benefit the general public through appropriations, including programs to protect and preserve natural areas, cultural and heritage resources, and educational programs for general audiences. The policy also defines what constitutes personal and commercial benefits that are to be financed through fees. The Parks Canada Agency incorporates the policy's principles in its financial recording and reporting systems. The respective costs and revenues related to public and private fee programs and services are recorded and reported separately.
- 1.37 Industry Canada. We found that Industry Canada determined the initial amount to be charged, according to market value, for three of the four "spectrum" licence fees we selected in our sample. These fees cover licences for cellular phone services and television signals broadcast via satellite, and facilitate fire, police, ambulance, and other public safety communications. Industry Canada took all reasonable steps to estimate the value of these licences. The fees will remain at the current amount until a review of the fees is done and the fees are adjusted. As a result, the Department will need to continue to monitor value and ensure that the fees reflect any related changes. With respect to determining the

benefit to the fee payer, the Department indicated that its policy and approach to determining the amount to be charged for these fees was to identify an amount that represented a fair return to the Canadian public for the use of a public resource and an incentive to use the spectrum efficiently.

1.38 Fisheries and Oceans Canada. We found that in 1996 Fisheries and Oceans Canada had established its marine navigation service fee at a level consistent with an agreed target, and had later revised the fee in 1998 after consultation with industry. Since 1998, the Department has reviewed the fee and its costs annually with stakeholders. We note that the fee has not changed, and its costs have remained stable. The Department and the commercial marine transportation industry have been discussing a future approach to fees. In 2007, the two parties reached an agreement that will lead to the development of a long-term solution to determining the charge for the fees that will respect the concerns of the industry and of government.

The amount charged for six fees was based on other factors, not on current cost or value

- 1.39 Industry Canada. We found that Industry Canada last amended the fee schedules for a radio licence in 1994. This licence represents permission to operate a radio "land mobile service," such as a service that enables a city garage to communicate with city vehicles on a specific frequency. We found no evidence that Industry Canada had tried to determine the approximate market value of this licence at that time or since, despite Treasury Board policy requiring this at the time. As a result, the licence fees may not reflect the current market value of this component of the radio frequency spectrum.
- to 1993, Fisheries and Oceans Canada. We found that from 1990 to 1993, Fisheries and Oceans Canada based its commercial fishing licence fees on a percentage of the average of the "landed value" of a catch, such as crab, lobster, and shrimp. This was a reasonable approach to determining the initial amount to be charged for a fishing licence. However, the fees no longer represent an appropriate amount to be charged for access to a public resource because it no longer reflects the value of the catch in the marketplace. For example, based on department information, the landed value per kilogram of lobster rose from about \$5 in 1990 to over \$13 in 2005. The Department repeatedly carried out reviews recommending that the amount charged for the fees be revised to reflect more up-to-date marketing conditions. The approach to these reviews was reasonable and included examinations

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of fish management practices of other countries. However, no changes were made to the fees. As announced in April 2007, the Department is again completing further reviews of its licence fees.

- 1.41 Health Canada. We found that Health Canada originally set the medical marihuana fee to develop a cost-neutral legal source of marihuana for medical research. However, without consultation with fee payers and without complete information about costs, the Department determined the amount to be charged for the medical marihuana fee largely with a view to ensuring comparability and affordability, and undercutting the illicit market price. The goal was to encourage seriously ill patients to purchase Health Canada's marihuana or marihuana seeds for their medical use, as the product was safe and free from contaminants. The Department also considered charging practices in the Netherlands and the United States.
- 1.42 Citizenship and Immigration Canada. As part of the government's 1995 federal budget objectives of decreasing program spending and increasing the use of fees to recover costs, Citizenship and Immigration Canada's right of permanent residence fee was introduced at a charge of \$975. The fee was intended to balance financial program pressures and the capacity of immigrants to pay the fee. The Department had consulted with a wide range of stakeholders, many of whom wanted a greater share of the costs to be transferred from the taxpayer to the direct beneficiaries, because immigration to Canada offers a wide range of benefits. The amount to be charged was reduced to \$490 in the 2006 federal budget to minimize the financial burden for applicants for permanent residence status.
- 1.43 The objective of Citizenship and Immigration Canada's permanent residence application fee was to recover a fair portion of the cost of processing immigrant applications to Canada. In 1986, based on an analysis of costs, the fee was initially set at \$125. By 1994, based on further analyses of costs, it had been increased four times and was at \$500. However, since then, the fee has remained substantially unchanged except for a small increase for an additional service in 2002. We saw no evidence that the fee was recently reviewed to determine if a change in the fee was required.
- 1.44 The Department's right of citizenship fee was introduced in 1995 at an amount of \$100 to be partial compensation for the many rights or privileges of citizenship, such as the right to vote, carry a Canadian passport, enter and remain in Canada, and be protected by Canada while abroad. The fee has remained unchanged for 13 years, and we found no evidence that the fee was subsequently reviewed to

determine whether a change in the fee was warranted. As a result, the fee may not reflect the value of the rights or privileges it confers.

- 1.45 Although factors other than cost or value are important in determining the charge for fees, federal organizations need to review all the factors affecting their fees when determining the amount to be charged, at the outset and periodically thereafter, to determine whether changes are needed. In doing so, organizations must ensure a fair share of the cost or value is carried by fee payers and taxpayers respectively and that the government, on behalf of all Canadians, receives a fair return for the goods, services, or use of a facility, or for the rights or privileges it provides.
- 1.46 Recommendation. Industry Canada (radio licence fees), Fisheries and Oceans Canada (commercial fishing licence fees), Health Canada (medical marihuana fee), and Citizenship and Immigration Canada (permanent residence application fee, right of permanent residence fee, and right of citizenship fee) should establish formal systems and practices to periodically review these fees. In this review, the departments should consider changing fee-related costs or value, the portion of the fee that should accrue to fee payers and taxpayers respectively, and other factors related to changing circumstances. They should also consider developing a longer-term approach to the fee structure that would enable the fee to be automatically adjusted to reflect these various factors, subject to the requirements of the *User Fees Act*.

Industry Canada's response. Industry Canada agrees with the recommendation and will establish practices to periodically review its spectrum and radio licence fees. The system and practices will take into consideration the factors identified. Following this review, Industry Canada plans to review the fees set in 1994 by the Governor in Council under the *Radiocommunication Regulations*.

Fisheries and Oceans Canada's response. Fisheries and Oceans Canada accepts the recommendation. The Department continues to periodically review commercial fishing licence fees. The most recent review was announced 12 April 2007, and is expected to be complete by 2010 in light of the extensive requirements associated with the regulatory process and the *User Fees Act*. The review is assessing changing factors within the commercial fishery as well as long-term approaches that would allow for timely and automatic updating of commercial fishing fees.

Health Canada's response. As per Health Canada's External Charging Policy, the Department will establish a timetable for periodic review of the fee at the time of introducing or amending the fee. Health Canada will review the medical marihuana fee in the 2008–09 fiscal year, including consideration of changing program costs and the portion of the fee that should accrue to fee payers and taxpayers respectively. As part of this review, Health Canada will consider developing a longer-term approach to the fee structure.

Citizenship and Immigration Canada's response. The Department agrees. Citizenship and Immigration Canada will periodically review pricing of service fees in comparison to program costs and changing circumstances. However, the Department's ability to carry out such a review may be limited in the event that it is subject to litigation related to fees, and depending upon the nature and scope of such litigation. Since there is no obligation for a department to charge the full Government of Canada cost of providing a service, a decision to revise fees is ultimately a decision of the government of the day to strike the proper balance between costs borne by fee payers and taxpayers.

## Foreign Affairs and International Trade Canada incorrectly allocated additional costs to the consular services fee

- 1.47 In 1995, as part of Program Review, Foreign Affairs and International Trade Canada began charging a consular services fee for all adult passports. The fee serves as insurance for Canadians who travel or live abroad and find themselves in need of protection or assistance as a result of an accident, illness, child abduction, custody dispute, crime, arrest, or detention. The core services this fee provides include assistance and evacuation in the event of a natural disaster or civil unrest, or support in cases when imprisoned Canadians require consular assistance to obtain legal assistance or representation where prison conditions do not meet Canadian standards.
- 1.48 When this fee was authorized, the total cost of these services was about \$37 million per year. When apportioned to the roughly 1.5 million adult passports issued yearly at the time, this total cost resulted in a fee of \$25 per passport, paid at the time an adult passport is purchased.
- 1.49 In addition, the consular services fee was approved on the condition that the Department would provide full disclosure of cost and associated revenues in the Department's performance reports and would adjust the fee, if necessary, to ensure that revenues did not exceed the full cost of the service. This latter requirement is consistent with the legislation and regulations under which the fee was set.

The Department of Foreign Affairs and International Trade Act and Consular Services Fee Regulations state that any fee must be set with a view to cost recovery. The only exception permitted was when a temporary spike in the demand for passports caused a short-term surplus. We found no indication of such a short-term spike in demand.

- 1.50 Costing methodology incorrectly calculated costs. In the authorization for the consular services fee, the total cost associated with the fee excluded costs that were related to other government activities carried out by consular staff—in particular, costs related to activities carried out on behalf of Passport Canada and Citizenship and Immigration Canada.
- 1.51 However, the Department's methodology for establishing the cost of the consular services fee reduced the fee's total cost only by the amount that it actually received from Citizenship and Immigration Canada and Passport Canada. It did not eliminate all the costs of providing these services. This methodology resulted in a repeated deficit position for the fee.
- 1.52 As illustrated in Exhibit 1.1, the results of this methodology were reflected in the Department's performance reports to Parliament. The Department explained that there were some years when it reported no information or only estimated figures in these reports because the financial information necessary to calculate the surplus or deficit from all activities carried out by consular staff was not available at the time of publication.
- 1.53 During our audit, we used the Department's internal financial information and time-reporting records to recalculate the costs of the fee in a manner that excluded the costs of services provided on behalf of Citizenship and Immigration Canada and Passport Canada, consistent with the methodology in the fee's authorization. In these recalculations, the deficits resulting from the Department's methodology were restated as surpluses for the 2003–04 to the 2005–06 fiscal years (Exhibit 1.1). We requested information on revenues and costs prior to 2002, but the Department was not able to provide us with the relevant information.
- 1.54 Based on our recalculations, we concluded that the Department has overstated costs of the consular services fee relative to the fee cost structure as originally approved. As a result, it is at risk of being seen to have not determined the amount to be charged for the fee in keeping with its legislative mandate to collect fees with a view to cost recovery. Consequently, adult passport holders are, in effect, helping to cover the

costs of activities that are outside the scope of what they would receive for the fee. There are also other separate fees levied upon adult passport holders for some of these particular costs, such as the fee for obtaining the passport itself.

1.55 The Department amended its costing methodology for the fee. After we informed the Department of our findings, the Department re-examined its methodology for establishing the costs of the fee. The Department agreed that it must exclude the costs of processing passport applications and the costs of services provided on behalf of Citizenship and Immigration Canada. However, in its view, the costs of the time spent responding to passport-related enquiries,

Exhibit 1.1 After excluding one-time costs in 2006–07, recalculations show a trend of surpluses for the consular services fee (\$ millions)

	Departmental performance reports of Foreign Affairs and International Trade Canada	Recalculations of the Office of the Auditor General	Recalculations of Foreign Affairs and International Trade Canada
2006–07			
Surplus (Deficit)	Not reported	(28.5)	(40.7)
2005-06			
Surplus (Deficit)	Not reported	25.3	13.3
2004–05			
Surplus (Deficit)	(10.0)	17.2	7.0
2003-04			
Surplus (Deficit)	(6.0)	5.7	6.8
2002-03			
Surplus (Deficit)	(9.0)	(2.8)	0.9

The discrepancy between the Department's and our recalculations is principally due to differing figures used for the time spent on passport-related issues abroad (see paragraphs 1.55 and 1.56).

In the 2006–07 fiscal year, the reported deficit for the consular services fee includes the costs of evacuating large numbers of Canadians from Lebanon and, as such, is higher than normal. The Department requested funding for these costs and received supplementary funds totalling \$63.1 million. These funds are not included in the Department's or our recalculations.

In the 2005–06 and 2004–05 fiscal years, the reported surplus or deficit for the consular services fee includes costs totalling about \$6 million for the Tsunami disaster and related activities. The Department also received supplementary funding for these costs, which are not included in the Department's or our recalculations.

sending out application forms, and dealing with walk-in clients were an appropriate component of the consular services fee but were not properly allocated to the fee in their time-reporting system.

- 1.56 As a result, in amending its calculations (Exhibit 1.1), the Department did not use its current time-reporting system, as we did in our recalculations. Rather, it followed the methodology in the original 1995 fee approval that used a 1993 study on the average time to issue a passport abroad. These figures were used as the basis for excluding the costs associated with activities performed on behalf of Passport Canada and produced different results than our recalculations (Exhibit 1.1).
- 1.57 Although the Department has responded to our findings by revising its methodology for establishing the costs of the fee and by amending its calculation of the costs of the consular services fee, the result points to some aspects of the fee that require reconsideration:
  - The Department's revised calculations confirm our findings of a trend of annual surpluses from the consular services fee, after excluding some large one-time costs in 2006–07 (that is, evacuations from Lebanon). As a result, the Department needs to consider the impact of this trend, and the likelihood that it will continue into the future, when determining the amount to be charged for the fee, to ensure that it is setting the fee with a view to cost recovery, as its legislative framework stipulates.
  - The Department also needs to update the results of the 1993 study on the average time to issue a passport abroad. Depending on the conclusions of that analysis, it may need to update its time-reporting practices or amend its methodology for establishing the costs of the consular services fee to ensure that an appropriate amount of costs incurred on behalf of Passport Canada and Citizenship and Immigration Canada are excluded from the costs of the consular services fee.
- 1.58 Recommendation. Foreign Affairs and International Trade Canada should review its time-reporting practices and the allocation of costs and activities to the consular services fee to ensure that they remain consistent with the authorization for the fee and exclude the costs of services on behalf of other departments and agencies that are not part of the consular services fee. The Department should then amend its reporting to Parliament, as appropriate, and take any necessary action to adjust the fee in view of the trend of surpluses.

#### Foreign Affairs and International Trade Canada's response.

The Department agrees that the costing methodology for the consular services fee needs to be reviewed but notes that cumulatively over the past five years, including the costs of the Lebanon evacuation in 2006–07, there is a modest deficit from the consular services fee.

Since implementation of the fee in 1995, there have been a number of significant changes in the operating environment that suggest a review of the fee would be appropriate. These changes include

- changes post-9-11 that have resulted in more complex and challenging consular cases,
- increased demand for consular services,
- increased expectations by Canadians abroad for more services, and
- large communities of Canadian citizens permanently resident abroad requiring consular services.

As a result of these new realities, the government announced in Budget 2008 that a significant investment would be made to strengthen the provision of consular services and other activities over the next five years. The Department is planning to return to the Treasury Board later this year with a comprehensive plan on how these funds will be allocated and services improved. This process will provide the opportunity for the Department to review all aspects of the consular program, including the basis for charging the fee as well as the appropriate costs to be allocated to the fee. Budget 2008 funds will be used to improve core consular services defined under the costing methodology for the consular services fee.

Budget 2008 also announced that as of 2011, Passport Canada will be issuing an electronic passport with a ten-year validity period. The change in validity period will be factored into the projected revenues for the consular fee and will also provide the opportunity to review and refine the existing consular case management system (COMIP), to clearly identify the time spent on passport applications by consular staff at missions abroad within the context of a new framework agreement with Passport Canada.

The Department will also ensure that the 2007–08 Departmental Performance Report and future departmental performance reports will contain the costing information for the year as well as report on previous years' information in accordance with the Office of the Auditor General's recommendation and the documents approving the fee.

# Performance information and public reporting

- 1.59 The Treasury Board Policy on Service Standards for External Fees requires departments and agencies to set and report measurable service standards for all external fees, except those negotiated by contract and between departments. As its underlying principle, the policy holds that those who pay fees for government services are entitled to fundamental information about the services being provided. These service standards must be developed in consultation with paying and non-paying stakeholders. The policy notes that service standards represent the government's commitment to those who use its services, particularly those who pay a fee, in a framework of transparency and accountability. The policy requires that these service standards be reported annually to Parliament.
- 1.60 However, the 2004 *User Fees Act* requires reporting to Parliament on costing, service standards, or performance only for fees that are new or increased under the *User Fees Act*. For the vast majority of fees that were set before passage of the Act and not increased, the department or agency is only required to annually submit to Parliament a list of those fees, but not to report to Parliament on costing, service standards, or performance results for those fees.
- 1.61 Given this difference in requirements between Treasury Board policy and the *User Fees Act*, the Treasury Board of Canada Secretariat addressed this matter in its 2006–07 *Guide to the Preparation of Departmental Performance Reports*. It recommended that, for all fees charged on a non-contractual basis, departments and agencies report on all elements, including the full costs, the service standards, and related performance results. This would, in effect, exceed the requirements of the Act, which requires only a listing of all fees that are not new or increased. By following the Secretariat's recommendation, departments and agencies would fulfill their accountability obligations to fee payers and to Parliament and the public.
- 1.62 Accordingly, we expected that departments and agencies would have measurable and relevant standards for services associated with selected fees. We also expected that departments and agencies would monitor performance against those standards.
- 1.63 In addition, we also expected that departments and agencies would describe, in their public performance reports or on their public websites, the goods, services, or use of a facility, or the rights or privileges for which they charge fees, and would report, with an appropriate level of detail and transparency, the costs and performance of fee programs relative to established standards and program objectives.

#### Service standards were established for ten fees

- 1.64 We found that most organizations had established their service standards for the fees examined. However, for the Parks Canada Agency's real property fees and for Fisheries and Oceans Canada's commercial fish licensing fees, we found that no service standards were established for these rights or privileges. In fact, as we report later in the chapter, we found that some organizations were confused about how to establish service standards for rights or privileges and need guidance in that regard.
- 1.65 For Citizenship and Immigration Canada's permanent resident application fee, its departmental website specifies the expected time to process an application at each of the Department's offices throughout the world and in Canada. This time, however, could change depending on factors beyond the Department's control, such as sudden shifts in demand and related resources. For the right of permanent residence and the right of citizenship fees, the issuing of the related right or privilege depends on successfully attaining permanent residence status or on obtaining citizenship status.
- 1.66 Health Canada was not required to establish service standards for the medical marihuana fee because the fee was set by contract and was consequently outside the scope of Treasury Board policy and the *User Fees Act*. However, we found that Health Canada had established quality and timeliness service standards, but as these standards were not based on consultation with fee payers, we were unable to determine their relevance to the fee payers.

#### Public performance reporting on eight fees is not complete

- 1.67 As an example of full and balanced performance monitoring and related public reporting, we found that the Parks Canada Agency included full cost information and complete information on standards and performance in its performance report.
- 1.68 Citizenship and Immigration Canada reports cost information on its permanent residence application fee. However, it was not able to report the full costs of processing those applications because, as we reported earlier, some other organizations had not provided information to Citizenship and Immigration Canada about the processing costs they incur related to the fee. The Department, however, has fully disclosed that this information is absent.
- **1.69** For reporting on performance of its permanent residence application fee, Citizenship and Immigration Canada provides actual

historical processing times to process a permanent residence application, but does not report performance results for this expected time for processing applications. Industry Canada also reports annual financial and non-financial information on the four spectrum and radio licence fees in an aggregated manner that does not enable a full understanding of the revenue received and performance results at the level of the individual fees.

- performance reports or websites did not always include complete or sufficient financial and non-financial performance information, including information about service standards. Specifically, we found that Fisheries and Oceans Canada does not report on the performance of its commercial fish licensing fees. We also found that Foreign Affairs and International Trade Canada has approved standards for the consular services fee and tracks performance against some of these standards, but does not report performance against any of these standards to Parliament or the public. Instead, the Department reports on levels of client satisfaction based on a small-scale survey of Canada's more than 200 consular offices and a range of consular services provided. Matters related to the Department's public reporting of cost information have been discussed previously in this report.
- 1.71 Finally, fee payers have access to information about the quality of the medical marihuana product on Health Canada's website. However, the Department does not publicly report all performance information or any cost information for this fee either on its website or in its performance report. Neither the *User Fees Act* nor Treasury Board policy requires the Department to make this information available for such a fee set by contract. Nevertheless, in our view, Health Canada needs to consider reporting this information given the interest of parliamentarians and Canadians in this fee.
- 1.72 Although the minimal disclosure of financial and non-financial performance information that we observed complies with the requirements of the *User Fees Act*, we expected to find that federal organizations exceeded these minimum standards and provided Canadians and fee payers with complete and transparent information about their fee programs. As fee payers and Canadians become increasingly interested in the fees that they pay, organizations will need to examine the nature and extent of their disclosure of performance-related information to ensure that it meets the needs of Parliament, Canadians, and fee payers.

1.73 Recommendation. Fisheries and Oceans Canada, Foreign Affairs and International Trade Canada, Citizenship and Immigration Canada, Industry Canada, and Health Canada should consider improving the transparency of their fees that were subject to this audit by providing more complete public reporting of their financial and non-financial performance information.

Fisheries and Oceans Canada's response. Fisheries and Oceans Canada accepts the recommendation. The Department will consider the means whereby the fees may be made more transparent through the medium of the Report on Plans and Priorities and the Departmental Performance Report.

Foreign Affairs and International Trade Canada's response. The Department's existing Consular Services Standards will be reviewed in light of the Department's recently approved Program Activity Architecture and Performance Measurement Framework, with the intention of establishing more meaningful standards and, in turn, better public reporting. Appropriate changes will be initiated in accordance with the provisions of the *User Fees Act* and reflected in the Department's reporting to Parliament in its Departmental Performance Report.

Citizenship and Immigration Canada's response. Citizenship and Immigration Canada (CIC) agrees in principle with the recommendation. The Department's large backlog of immigration applications and the fact that processing involves decisions by its partner departments, whose processing times are outside of CIC's control, poses challenges in reporting performance information in a meaningful way. The Department is introducing changes to its legislation to better manage its backlog in the longer term. It is committed to a phased-in implementation of setting and reporting service standards for permanent resident applications starting in early 2009. CIC will continue to work with partner departments to ensure completeness of financial information.

Industry Canada's response. Industry Canada agrees with the recommendation and will consider how it might improve the transparency of its spectrum fees, and how reporting of financial and non-financial performance information might be improved. This reporting will be provided in the Department's 2008–2009 Departmental Performance Report and its 2009–2010 Report on Plans and Priorities.

Health Canada's response. Health Canada reports performance in Table 7B of its Departmental Performance Report. The Department will review the performance information available for the Medical Marihuana Program—what is relevant and how it should be reported. This will be completed in the 2008–09 fiscal year.

As per the response to the recommendation at paragraph 1.30, Health Canada will determine the full cost of the Medical Marihuana Program in the 2008–09 fiscal year, using the Corporate Cost Allocation Model (CCAM). Once completed, the Department will be in a position to report the full program cost.

#### Legislation, policy, and guidance

1.74 When originally introduced as a private member's bill, the *User Fees Act* did not contain any preamble setting out the intent of its various sections. In order to provide government legal counsel with some basic legal information about fees and the interpretation of the *User Fees Act*, the Department of Justice issued a *Guide on User Fees* in 2005.

#### Treatment of fees differs because of the User Fees Act

- 1.75 Of the thirteen fees we selected, we found that only three of them were submitted to Parliament as new or increased fees under the *User Fees Act*: Industry Canada's fee for broadband public safety communication, and the two Parks Canada Agency fees we examined. In fact, only one other fee proposal has been tabled in Parliament under the Act, for a total of four fee proposals since the Act was passed in 2004.
- 1.76 We also note that the *User Fees Act* has different requirements for fees that are new or increased under the Act, compared with fees that were set before the Act was passed in 2004. For new or increased fees, the Act requires that departments and agencies publicly report their cost, performance standards, and performance information, and that these fees be reduced if their service standards are not achieved. However, these requirements do not apply to the vast majority of existing fees that were set before the Act was passed. This includes about 98 percent of the 220 fees publicly reported in departmental performance reports (including 10 of the fees we audited). In those cases, the department or agency is only required to annually submit to Parliament a listing of the fees.
- 1.77 These different requirements result in inconsistencies in the treatment of fees that are required to comply with all provisions of the Act, compared with those fees that must comply with only the

minimum requirements of the Act. Transparency is therefore an issue for the majority of fees. Yet, Treasury Board's Policy on Service Standards for External Fees stresses that there is a government commitment to transparency and accountability for those who pay fees for government services.

- 1.78 In addition, the parliamentary process under the Act can mean long delays in reviewing fees, as was the case for one Industry Canada fee that we examined. If fees were reviewed and modified more regularly, the government could face significant delays in implementing those fees and in collecting revenue.
- 1.79 We also found that the medical marihuana fee was initially set by contract in 2003, given the short amount of time available to Health Canada to implement the fee, and that it has been repeatedly set in this manner since then. While Health Canada can legally establish fees by entering into contracts, such fees are not required to undergo the processes that the *User Fees Act* normally applies to new or increased fees. In our view, such a repetitive use of a contract avoids the regulatory process and limits Parliament's ability to review fee proposals that are established in such a manner.
- 1.80 As noted in our 1993 chapter Parliamentary Control over the Raising of Revenue by Fees, use of contracting for fees requires careful consideration of many factors by departments, agencies, and the Treasury Board of Canada Secretariat. In accordance with that observation, we suggest that the following types of questions be asked:
  - How should Parliament be given the opportunity to review fees established by contract?
  - How should affected parties be consulted?
  - Should contracts, rather than other statutory authorities, be used to set fees?
  - Should fees set by contract be subject to the *User Fees Act*?
- 1.81 Finally, in March 2007, the President of the Treasury Board laid before Parliament a report on the provisions and operation of the *User Fees Act*, as the Act required during the third year following its passage. The report outlined the history of the *User Fees Act* and the scope of its provisions, the new fee proposals that had been tabled in Parliament pursuant to the Act, and developments in the area of performance reporting. Although the scope of the report did not focus greatly on the varying requirements for fees under the *User Fees Act*, or on other challenges related to the Act, our audit findings highlight the need to examine these matters more closely and table the results in Parliament.

- 1.82 Parliament needs better information to fully understand that the User Fees Act results in inconsistencies in the treatment of new or increased fees and the majority of fees that were set before the Act came into effect. Consequently, parliamentarians, fee payers, and taxpayers are receiving inconsistent information about these different types of fees. Parliament needs to consider whether to maintain this inconsistent treatment of different types of fees, or amend the User Fees Act to include all fees, and, at the same time, clarify other challenges related to the Act.
- **1.83** Recommendation. The Treasury Board of Canada Secretariat should identify challenges with respect to the scope and application of the *User Fees* Act and provide the President of the Treasury Board with that analysis, with a view to tabling a report in Parliament.

Treasury Board of Canada Secretariat's response. The Secretariat agrees that there have been challenges in the interpretation and application of the *User Fees Act* and will provide the President of the Treasury Board with its analysis of these by November 2008.

#### Treasury Board of Canada Secretariat guidance needs to be improved

- **1.84** The Treasury Board Policy on Service Standards for External Fees is not linked to the requirements of the *User Fees Act*, but it does address and reinforce the matter of service standards. There are also a number of other policies and guides addressing the process for setting fees, including, for example, guidance on the regulatory process.
- 1.85 Before the *User Fees Act* was introduced, a Treasury Board policy on charging was implemented in 1989, and updated in 1997 and 2003. This policy addressed all aspects of fees, from establishing costs to determining the charge for a fee, as well as service standards and performance information. However, after the Act became law, the 2003 policy was rescinded because the Treasury Board of Canada Secretariat's analysis concluded that certain provisions in the Act were in conflict with the policy.
- 1.86 The Treasury Board of Canada Secretariat is producing a new guide on establishing costs for government programs, including fee programs. The content of that guidance, still in draft form, improves on the earlier policy and, in our view, generally complies with best practices.
- 1.87 Apart from this guidance on establishing costs for government programs, we found that there is little guidance to assist departments and agencies with determining the amount to be charged as a fee.

While previous policies that had been rescinded are archived for historical reference and provide useful information, organizations indicated that they are not always considered a suitable source of guidance because they have been rescinded.

- 1.88 In addition to the need for general guidance in determining the amount to be charged, we found a range of other specific issues where more guidance would be helpful, including, for example, guidance on the need for a regular review and update of fees in relation to changing circumstances and how best to conduct that review.
- 1.89 Organizations are also unclear about how to determine the amount to be charged for a fee for a right or privilege where there is no commercial market or value associated with that fee. Furthermore, a Supreme Court of Canada decision in February 2008 on a fee for a right and privilege has implications for fees for rights and privileges that are part of a regulatory program. Finally, we found that some organizations were uncertain about how to develop service standards and performance measures for rights and privileges, as there are often no easily identifiable services or costs associated with these types of fees.
- address every possible situation, in our view, federal organizations need specific guidance and direction on determining the amount to be charged for a fee—in particular, for the areas outlined in paragraphs 1.87 to 1.89. Departments and agencies will then need to consider the implications of this guidance for their fees. In filling this gap in its policy and guidance framework for fees, it is important that the Treasury Board of Canada Secretariat be careful to ensure that any guidance is consistent with the applicable legislation.
- **1.91** Recommendation. The Treasury Board of Canada Secretariat should finalize its guidance on establishing costs for fees and should update guidance on the factors organizations should consider in determining the amount to be charged for a fee.

Treasury Board of Canada Secretariat's response. The Secretariat agrees. Following considerable analysis and departmental consultation, the Treasury Board of Canada Secretariat released a revised *Guide to Costing* in March 2008. The revised Guide, founded on generally accepted management accounting principles, promotes costing and the use of cost information as key tools of sound management and decision making. The Guide promotes a consistent seven-step approach that should be used in all costing exercises. Practical guidance contained in

the revised Guide will foster better understanding of the costs of fee-related services and help strengthen the base upon which the appropriate amount of a user fee may be determined.

The Treasury Board of Canada Secretariat will also undertake to update, by March 2009, its guidance on the factors to be considered in determining the amount of a fee.

## Conclusion

- 1.92 A fee is an arrangement between the fee payer and the government for providing goods, services, or the use of a facility, or certain rights or privileges. Appropriate systems and practices are needed to establish a reasonable relationship between the fee and its associated cost or value. An accountability mechanism is also critical to ensure that Parliament, fee payers, and taxpayers receive transparent information about fees.
- 1.93 We found that the methodologies and practices for establishing the costs of fees varied for five cost-based fees that we examined—from those that captured the full cost of fees to those that could not identify the cost. As a result, organizations may not have the information necessary to determine the amount to be charged for the fee.
- 1.94 In addition, we found that Foreign Affairs and International Trade Canada was allocating costs to the consular services fee beyond those included in the cost allocations supporting the original approval of the fee. After applying a methodology consistent with the original fee approval, we identified a trend of surpluses. This means that the Department is at risk of appearing to have not determined the amount to be charged for the fee in a way that was consistent with a view to cost recovery, as its legislative framework requires.
- 1.95 In many of the fees examined, the amount charged was based on other factors, not on cost or value. Specifically, we noted that, two fees had not kept pace with increasing costs or the value of rights or privileges, and four fees were set based on other factors. As a result, the government may be recovering less than an appropriate amount from fee payers, or, depending on the fee, taxpayers may be inappropriately subsidizing a private benefit or fee payers may be inappropriately subsidizing a public benefit.

- 1.96 We found that the Treasury Board of Canada Secretariat is developing guidance on establishing costs of fees, but there are no plans to update guidance on the factors to be considered in determining the amount to be charged for the fee. This is an area where we found problems and inconsistencies. In addition, important accountability provisions of the *User Fees Act* apply only to new or increased fees; therefore, they had no applicability to most of the fees we examined, or to the majority of fees in the government inventory that were set before the Act was passed in 2004.
- 1.97 In the area of performance information and public reporting, we found that most of the fees we examined were accompanied by service standards. We further found that organizations' public reporting of financial and non-financial performance information for eight selected fees was not complete in their performance reports or on their websites.
- 1.98 The impact of the problems we found is summarized on a fee-by-fee basis in Exhibit 1.2. While our audit conclusions apply only to the fees in our sample, in our view, similar problems and weaknesses may exist for other government fees. The government may wish to explore this matter further.

Exhibit 1.2 Most federal organizations did not meet all of the audit criteria

Category	Fee	Organization	Systems and practices for costing and pricing fees	Service standards established and negotiated	Performance information and public reporting
Fee for good, service, or use of a facility	Marine navigation services fee	Fisheries and Oceans Canada	Criteria not met	Criteria met	Criteria met
Fee for good, service, or use of a facility	Consular services fee	Foreign Affairs and International Trade Canada	Criteria not met	Criteria met	Criteria not met
Fee for good, service, or use of a facility	Entry fee	Parks Canada Agency	Criteria met	Criteria met	Criteria met
Fee for good, service, or use of a facility	Permanent residence application fee	Citizenship and Immigration Canada	Criteria not met	Criteria met	Criteria not met
Fee for good, service, or use of a facility set by contract	Medical marihuana	Health Canada	Criteria not met	Fee set by contract and thus excluded from this requirement	Fee set by contract and thus excluded from this requirement

Exhibit 1.2 Most federal organizations did not meet all of the audit criteria (continued)

Category	Fee	Organization	Systems and practices for costing and pricing fees	Service standards established and negotiated	Performance information and public reporting
Right or privilege	Right of permanent residence fee	Citizenship and Immigration Canada	Criteria not met	Criteria met	Criteria met
Right or privilege	Right of citizenship fee	Citizenship and Immigration Canada	Criteria not met	Criteria met	Criteria met
Right or privilege	Commercial fishing licence fee	Fisheries and Oceans Canada	Criteria not met	Criteria not met	Criteria not met
Right or privilege	Personal communication services WTS (cellular/PCS) fee	Industry Canada	Criteria met	Criteria met	Criteria not met
Right or privilege	Direct broadcasting satellite at orbital position 91° W longitude (12.2-12.7 GHz & 17.3-17.8 GHz) fee	Industry Canada	Criteria met	Criteria met	Criteria not met
Right or privilege .	4940-4990 MHz for broadband public safety communications fee	Industry Canada	Criteria met	Criteria met	Fee approved March 2008 and thus excluded from this requirement
Right or privilege	Fixed stations in land mobile service fee	Industry Canada	Criteria not met	Criteria met	Criteria not met
Right or privilege	Real property fee	Parks Canada Agency	Criteria met	Criteria not met	Criteria met

## About the Audit

#### **Objective**

The objectives of this audit were to determine

- whether selected federal organizations had appropriate systems and practices in place for establishing the costs of selected fees and determining the amount to be charged for them;
- whether the organizations appropriately measured, monitored, and reported over time on the performance of selected fees;
- whether the Treasury Board of Canada Secretariat had provided organizations with appropriate central agency policy and guidance relevant to fees; and
- how the User Fees Act affects a selection of fees.

#### Scope and approach

Our audit approach consisted of the following:

- reviewing Treasury Board of Canada policies and Treasury Board of Canada Secretariat guidance to determine if they represented best practice in the area of establishing the costs of fees and determining the amount to be charged for them;
- examining a selection of fees, through the use of review and enquiry, to determine whether systems
  and practices for establishing costs of fees, determining the amount to be charged for them, setting and
  monitoring standards, and publicly reporting fee programs complied with Treasury Board of Canada
  policy, Treasury Board of Canada Secretariat guidance or best practices, and provided complete and
  accurate financial and non-financial information; and
- reviewing the impact of the *User Fees Act* on a selection of fees.

Our audit focused on whether there were reasonable and appropriate systems and practices to establish costs and determine the amount to be charged for selected fees. It did not include verification of the specific cost or other information used to determine the amount charged for selected fees.

Subsequent to the completion of our audit work for this chapter, a Supreme Court of Canada decision released in February 2008 on a fee for a right and privilege has implications for fees for rights or privileges that are part of a regulatory program. As this decision was released after we completed our audit work, we did not consider the implications of this decision on the fees that we examined.

Our audit covered selected fees that were publicly reported in departmental performance reports from 1 April 2006 to 31 March 2007.

The federal organizations included in the audit were

- · Citizenship and Immigration Canada,
- · Fisheries and Oceans Canada,

- Foreign Affairs and International Trade Canada,
- · Health Canada,
- · Industry Canada, and
- · Parks Canada Agency.

We examined thirteen fees in these six organizations (see table on page 33). Our examination included a variety of

- fee types (fees for goods, services, or use of a facility or for rights or privileges);
- the legislative authorities that set the fees; and
- the risks that are likely to arise in managing fee-related activities (for example, establishing the cost of fees and determining the amount to be charged, and the risks of inaccurate or incomplete reporting of performance information to Parliament or other stakeholders).

We did not examine fees for leasing or sale of government property.

We also examined the role the Treasury Board of Canada Secretariat played in these fee programs.

#### Criteria

Our criteria were based on the expected actions of the government as prescribed in legislation and in government policies.

We expected that the Treasury Board of Canada Secretariat would have established appropriate policies and guidance for federal organizations concerning the costs and charges of fees, and related performance standards and reporting.

We expected that organizations would have

- followed Treasury Board of Canada Secretariat policy and guidance and put appropriate systems and practices in place to determine the full cost of providing goods, services, or the use of a facility and to determine the charge for a fee;
- · developed, applied, and monitored service standards and taken any necessary corrective measures; and
- described, in their performance reports or on their websites, the goods, services, or use of a facility or
  the rights or privileges for which they charged a fee, and publicly reported the financial and
  non-financial performance of fee activities in relation to established standards and program objectives.

#### Fees selected for audit

Department	Department Fee Description Legislation or regulation		2006-07 Revenue (\$ million)	Туре	
Citizenship and Immigration Canada	Right of permanent residence fee	A fee paid by newcomers for the right to obtain permanent residence status in Canada.	Immigration and Refugee Protection Regulations	74	Right or privilege
	Permanent residence application fee	A fee paid by newcomers to process an application for immigration to Canada.	Immigration and Refugee Protection Regulations	177*	Fee for good, service, or use of a facility
	Right of citizenship fee	A fee paid by permanent residents for the right to obtain citizenship status in Canada.	Citizenship   Regulations, 1993	18	Right or privilege
Fisheries and Oceans Canada	Marine navigation   services fee	A fee paid by the commercial shipping industry for certain marine navigational services.	Oceans Act	29	Fee for good, service, or use of a facility
	Commercial fishing licence fee	A fee paid by commercial fishermen to fish commercially.	Fisheries Act	38	Right or privilege
Foreign Affairs and International Trade Canada	Consular services   fee	A fee that is included within the overall cost of an adult passport for protection or assistance to Canadians abroad.	Consular Services Fees Regulations	76	Fee for good.   service, or use of   a facility
Health Canada	Medical marihuana fee	A fee paid by seriously ill patients to obtain marihuana or marihuana seeds.	Marihuana Medical Access Regulations	0.7	Fee set by contract
Industry Canada	Personal communication services WTS (cellular/PCS) fee	A fee paid by service providers to permit the transmission of cellular phone services.	Department of Industry Act	133	Right or privilege
	Direct broadcasting satellite at orbital position 91° W longitude (12.2- 12.7 GHz & 17.3- 17.8 GHz) fee	A fee paid by service providers to permit the broadcast of television signals.	Department of Industry Act	2	Right or privilege

#### Fees selected for audit (continued)

Department	4940-4990 MHz A fee paid by public D		Legislation or regulation	2006–07 Revenue (\$ million)	Type Right or privilege	
			Department of Industry Act	Approved March 2008 under the User Fees Act		
	Fixed stations in land mobile service fee	A fee paid by organizations to permit the operation of a radio land mobile service.	Radiocommunication Act	48	Right or privilege	
Parks Canada Agency	Entry fee	A fee paid by visitors to access the national parks.	Parks Canada Agency Act	49	Fee for good, service, or use of a facility	
	Real property fee	A fee paid by enterprises to occupy lands owned by the Parks Canada Agency for business and residential purposes.	Parks Canada Agency Act	17	Right or privilege	

<sup>\*</sup>includes permanent resident travel document fees, permanent resident card fees, and sponsorship fees

#### Audit work completed

The audit work for this chapter was substantially completed on 30 November 2007.

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# **Appendix** List of recommendations

The following is a list of recommendations found in Chapter 1. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

#### Recommendation Response Costs of fees and determining the amounts charged Fisheries and Oceans Canada Fisheries and Oceans Canada accepts the recommendation. should improve the reliability of the Since the internal audit of 2005, improvements have been made information used to allocate costs to to clarify and update the business process related to the the marine navigation services fee. timeliness and reliability of the fleet operational data and the (1.25)consistency of cost allocations. The Department is carrying out the Readiness Assessment project to prepare for the independent audited financial statements that are to be available by the 2010-11 fiscal year. The costing systems and processes will be reviewed, after which the Department will assess the actions needed and time required to improve the reliability of the information. Fisheries and Oceans Canada Fisheries and Oceans Canada accepts the recommendation. should identify the costs associated with The Department has started identifying the costs associated with the registration fee for fishers and their the issuance of fisher and vessel registrations for which fees vessels to ensure that the fee complies are set under regulation. These costs will be compared to the with all legislation, policies, and revenues collected for the issuance of these registrations, and guidance associated with the fee, the Department will determine the necessary action to be taken, and take any necessary action to including adjusting the fees if required. Because of the adjust the fee. complexity of the regulatory process, adjustments to fisher (1.27)and vessel registration fees would be completed by 2011.

1.30 Health Canada should improve its systems and practices for establishing costs of the activities related to the medical marihuana fee, to be able to accurately calculate the full cost of those activities on a periodic basis. (1.29)

In the 2007–08 fiscal year, the Department developed the Corporate Cost Allocation Model (CCAM) and policies and guidelines to improve Health Canada's costing systems. Health Canada will apply the CCAM to determine the full cost of the Medical Marihuana Program and will also establish a schedule on which the full cost of the program will be recalculated. This will be completed in the 2008–09 fiscal year. Once completed, the Department will be in a position to report the full program cost.

#### Recommendation

Industry Canada (radio licence fees), Fisheries and Oceans Canada (commercial fishing licence fees), Health Canada (medical marihuana fee), and Citizenship and Immigration Canada (permanent residence application fee, right of permanent residence fee, and right of citizenship fee) should establish formal systems and practices to periodically review these fees. In this review, the departments should consider changing fee-related costs or value, the portion of the fee that should accrue to fee payers and taxpayers respectively, and other factors related to changing circumstances. They should also consider developing a longer-term approach to the fee structure that would enable the fee to be automatically adjusted to reflect these various factors, subject to the requirements of the User Fees Act. (1.39 - 1.45)

#### Response

Industry Canada's response. Industry Canada agrees with the recommendation and will establish practices to periodically review its spectrum and radio licence fees. The system and practices will take into consideration the factors identified. Following this review, Industry Canada plans to review the fees set in 1994 by the Governor in Council under the Radiocommunication Regulations.

Fisheries and Oceans Canada's response. Fisheries and Oceans Canada accepts the recommendation. The Department continues to periodically review commercial fishing licence fees. The most recent review was announced 12 April 2007, and is expected to be complete by 2010 in light of the extensive requirements associated with the regulatory process and the *User Fees Act*. The review is assessing changing factors within the commercial fishery as well as long-term approaches that would allow for timely and automatic updating of commercial fishing fees.

Health Canada's response. As per Health Canada's External Charging Policy, the Department will establish a timetable for periodic review of the fee at the time of introducing or amending the fee. Health Canada will review the medical marihuana fee in the fiscal year 2008–09, including consideration of changing program costs and the portion of the fee that should accrue to fee payers and taxpayers respectively. As part of this review, Health Canada will consider developing a longer-term approach to the fee structure.

Citizenship and Immigration Canada's response. The Department agrees. Citizenship and Immigration Canada will periodically review pricing of service fees in comparison to program costs and changing circumstances. However, the Department's ability to carry out such a review may be limited in the event that it is subject to litigation related to fees, and depending upon the nature and scope of such litigation. Since there is no obligation for a department to charge the full Government of Canada cost of providing a service, a decision to revise fees is ultimately a decision of the government of the day to strike the proper balance between costs borne by fee payers and taxpayers.

#### Recommendation

1.58 Foreign Affairs and International Trade Canada should review its time-reporting practices and the allocation of costs and activities to the consular services fee to ensure that they remain consistent with the authorization for the fee and exclude the costs of services on behalf of other departments and agencies that are not part of the consular services fee. The Department should then amend its reporting to Parliament, as appropriate, and take any necessary action to adjust the fee in view of the trend of surpluses.

(1.47–1.57)

#### Response

The Department agrees that the costing methodology for the consular services fee needs to be reviewed but notes that cumulatively over the past five years, including the costs of the Lebanon evacuation in 2006–07, there is a modest deficit from the consular services fee.

Since implementation of the fee in 1995, there have been a number of significant changes in the operating environment that suggest a review of the fee would be appropriate. These changes include

- changes post-9-11 that have resulted in more complex and challenging consular cases,
- increased demand for consular services,
- increased expectations by Canadians abroad for more services, and
- large communities of Canadian citizens permanently resident abroad requiring consular services.

As a result of these new realities, the government announced in Budget 2008 that a significant investment would be made to strengthen the provision of consular services and other activities over the next five years. The Department is planning to return to the Treasury Board later this year with a comprehensive plan on how these funds will be allocated and services improved. This process will provide the opportunity for the Department to review all aspects of the consular program, including the basis for charging the fee as well as the appropriate costs to be allocated to the fee. Budget 2008 funds will be used to improve core consular services defined under the costing methodology for the consular services fee.

Budget 2008 also announced that as of 2011, Passport Canada will be issuing an electronic passport with a ten-year validity period. The change in validity period will be factored into the projected revenues for the consular fee and will also provide the opportunity to review and refine the existing consular case management system (COMIP), to clearly identify the time spent on passport applications by consular staff at missions abroad within the context of a new framework agreement with Passport Canada.

Recommendation	Response			
	The Department will also ensure that the 2007–08 Departmental Performance Report and future departmental performance reports will contain the costing information for the year as well as report on previous years' information in accordance with the Office of the Auditor General's recommendation and the documents approving the fee.			

#### Performance information and public reporting

1.73 Fisheries and Oceans Canada, Foreign Affairs and International Trade Canada, Citizenship and Immigration Canada, Industry Canada, and Health Canada should consider improving the transparency of their fees that were subject to this audit by providing more complete public reporting of their financial and non-financial performance information.

(1.68–1.72)

**Fisheries and Oceans Canada's response.** Fisheries and Oceans Canada accepts the recommendation. The Department will consider the means whereby the fees may be made more transparent through the medium of the Report on Plans and Priorities and the Departmental Performance Report.

Foreign Affairs and International Trade Canada's response. The Department's existing Consular Services Standards will be reviewed in light of the Department's recently approved Program Activity Architecture and Performance Measurement Framework, with the intention of establishing more meaningful standards and, in turn, better public reporting. Appropriate changes will be initiated in accordance with the provisions of the *User Fees Act* and reflected in the Department's reporting to Parliament in its Departmental Performance Report.

Citizenship and Immigration Canada's response. Citizenship and Immigration Canada (CIC) agrees in principle with the recommendation. The Department's large backlog of immigration applications and the fact that processing involves decisions by its partner departments, whose processing times are outside of CIC's control, poses challenges in reporting performance information in a meaningful way. The Department is introducing changes to its legislation to better manage its backlog in the longer term. It is committed to a phased-in implementation of setting and reporting service standards for permanent resident applications starting in early 2009. CIC will continue to work with partner departments to ensure completeness of financial information.

## Recommendation Response Industry Canada's response. Industry Canada agrees with the recommendation and will consider how it might improve the transparency of its spectrum fees, and how reporting of financial and non-financial performance information might be improved. This reporting will be provided in the Department's 2008–2009 Departmental Performance Report and its 2009–2010 Report on Plans and Priorities. Health Canada's response. Health Canada reports performance in Table 7B of its Departmental Performance Report. The Department will review the performance information available for the Medical Marihuana Program—what is relevant and how it should be reported. This will be completed in the 2008–09 fiscal year. As per the response to the recommendation at paragraph 1.30, Health Canada will determine the full cost of the Medical Marihuana Program in the 2008–09 fiscal year, using the Corporate Cost Allocation Model (CCAM). Once completed, the Department will be in a position to report the full program cost.

#### Legislation, policy, and guidance

1.83 The Treasury Board of Canada Secretariat should identify challenges with respect to the scope and application of the *User Fees Act* and provide the President of the Treasury Board with that analysis, with a view to tabling a report in Parliament. (1.74–1.82)

The Secretariat agrees that there have been challenges in the interpretation and application of the *User Fees Act* and will provide the President of the Treasury Board with its analysis of these by November 2008.

#### Recommendation

1.91 The Treasury Board of Canada Secretariat should finalize its guidance on establishing costs for fees and should update guidance on the factors organizations should consider in determining the amount to be charged for a fee.

(1.84-1.90)

#### Response

The Secretariat agrees. Following considerable analysis and departmental consultation, the Treasury Board of Canada Secretariat released a revised *Guide to Costing* in March 2008. The revised Guide, founded on generally accepted management accounting principles, promotes costing and the use of cost information as key tools of sound management and decision making. The Guide promotes a consistent seven-step approach that should be used in all costing exercises. Practical guidance contained in the revised Guide will foster better understanding of the costs of fee-related services and help strengthen the base upon which the appropriate amount of a user fee may be determined.

The Treasury Board of Canada Secretariat will also undertake to update, by March 2009, its guidance on the factors to be considered in determining the amount of a fee.

# Report of the Auditor General of Canada to the House of Commons—May 2008

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2008



Report of the
Auditor General
of Canada
to the House of Commons

MAY

Chapter 2
Support for Overseas Deployments—
National Defence



Office of the Auditor General of Canada



# 2008



Report of the

# Auditor General of Canada

to the House of Commons

MAY

Chapter 2

Support for Overseas Deployments— National Defence





The May 2008 Report of the Auditor General of Canada comprises A Message from the Auditor General of Canada, Main Points—Chapters 1 to 8, and eight chapters. The main table of contents for the Report is found at the end of this publication.

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# Chapter

2

Support for Overseas Deployments
National Defence

All of the audit work in this chapter was conducted in accordance with the standards for assurance eng by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the re for our audits, we also draw upon the standards and practices of other disciplines.	ragements set ninimum requirement

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# Support for Overseas Deployments National Defence

## **Main Points**

#### What we examined

Canada's military role in Afghanistan since the end of 2003 has been to contribute to international security and, in particular, to the stability of the area. National Defence support to the mission is essential to ensuring that troops as well as civilians working alongside the military have the supplies and services they need to conduct operations and maintain readiness.

We examined whether the National Defence supply chain has been able to respond to the needs of the mission in Afghanistan as the mission has evolved. We looked at whether the supply system has been able to maintain adequate stocks for the repair and maintenance of military equipment, to track and control supplies as they move to Afghanistan through the supply chain, and to deliver items to those who need them when they are needed.

### Why it's important

Military operations cannot be conducted without logistical support that moves the right equipment to the right people at the right time. The ability to support operations dictates what the mission can do. The Canadian Forces' deployment to Kandahar, Afghanistan, is its largest overseas deployment since the Korean War. The supply chain needs to respond faster to more demanding situations in this mission than it has had to for previous overseas deployments. This mission has tested the ability of the Canadian Forces to support a major military operation when called upon to do so.

Canada is seen as a lead nation to the mission in Afghanistan and is self-supporting for the most part, although, like previous deployments, the Canadian Forces can also rely somewhat on support provided by allies. Canada is also providing medical services to other nations through the Canadian-led military hospital at Kandahar Air Field.

### What we found

 National Defence has been able to deliver to troops its equipment and supplies that they need to do the job in Afghanistan. While we did note that commanders have expressed concerns over some supply chain shortcomings, we found no reports of supply chain problems that had significantly affected operations. This is largely

- because the high level of dedication and hard work of Canadian Forces personnel enabled them to deliver the needed support.
- · While National Defence has been able to adapt and adjust to the supply chain problems our audit identified, unless the deficiencies are addressed, the Department's ability to provide timely and appropriate support could be at risk over time. For example, we found delays in moving needed supplies to Afghanistan and found that the supply system does not provide enough information to track the arrival and whereabouts of all goods. Some key equipment has been difficult to maintain because of spare parts shortages or reduced stocks as equipment begins to wear out. Support to the mission is being supplemented by a growing number of contract personnel for maintenance and other services to help keep operations going.

The Department has responded. The Department agrees with all the recommendations. Its detailed responses follow the recommendations throughout the chapter.

## Introduction

- 2.1 The Canadian Forces initially moved to Kandahar from Kabul during the fall of 2005 under Operation Enduring Freedom, the American-led operations in Afghanistan. With that move came the responsibility for the stabilization and security of a larger area alongside Canada's coalition and Afghan partners. As well, the Canadian Forces took on the lead role of providing hospital facilities and medical services for injured military personnel from all countries deployed to Regional Command South, one of the areas of NATO's operations in Afghanistan.
- 2.2 The Canadian Navy, Army, and Air Force are contributing to the mission in Afghanistan and are working cooperatively toward its success. Within Afghanistan, most Canadian Forces personnel are stationed at the main base at Kandahar Air Field but also work out of a number of other locations, including the camp for the provincial reconstruction team and several forward-operating bases in Kandahar province. Although most of these personnel are members of the Army, the Air Force is providing needed air assets and personnel for operations. As well, the Navy has played a major role in the security of the Persian Gulf region and is providing personnel to the mission.
- 2.3 The Joint Task Force Afghanistan is composed of Canadian Forces military personnel and approximately 250 positions for civilian personnel and contractors. As well, there are ongoing technical assistance visit teams who supplement the military personnel in Kandahar when needed, to do such things as
  - replace key personnel on leave;
  - perform modifications to vehicles, such as increased armoured protection;
  - introduce new equipment; and
  - put warehouse stock records in order.
- 2.4 The number of Canadian military personnel in Afghanistan varies significantly during a rotation cycle (the period, generally six months, when personnel are stationed in Afghanistan). On average, there were about 2,445 Canadian Forces personnel in-theatre as part of the Joint Task Force during the six months ending January 31, 2008.
- **2.5** Before they go to Afghanistan, Canadian Forces troops prepare for the mission at a specially designed training centre in Canada where they train as a battle group. The military has actively sought out

Forward-operating base—One of a number of small military camps outside of Kandahar Air Field from which operations can be launched.

In-theatre — The military's area of operation under one commander who is responsible for the mission. Theatres can comprise several sites, some of which may be located over large areas or include several countries. The Joint Task Force Afghanistan conducts its activities in one operational theatre that includes, for example, Kandahar Air Field, sites where the provincial reconstruction team is working in Kandahar, forward-operating bases where troops are located, and areas that provide logistics support to the operation.

Canadian Expeditionary Force Command— A departmental organization created in 2005 to plan and conduct Canadian Forces international operations, with the exception of operations conducted solely by the Canadian Special Operations Forces Command

Canadian Operational Support Command—A departmental organization created in January 2006 to support all military operations Headquartered in Ottawa, it is responsible for planning and delivering national-level operational support, including providing the logistics for setting up in-theatre operation, its sustainment, and for coordinating the logistic support. Its tasks include managing the main supply depots in Canada.

National Support Element—A Canadian Forces unit, based at Kandahar Air Field, consisting of approximately 730 military, civilian, and contract personnel. It sustains the Task Force Afghanistan combat operations by providing a range of support services, including warehousing and supplies, supply convoys, equipment maintenance, and food services.

lessons to be learned from the mission in Afghanistan and where appropriate it has incorporated these lessons into the training.

- 2.6 During the summer and fall of 2005, Canadian Forces troops participated in the transition from Kabul to Kandahar to prepare for operations to officially start in Kandahar in February 2006. The Assistant Deputy Minister (Materiel) assessed requirements and ensured that the camp at Kandahar Air Field could accommodate the personnel and equipment necessary for the operation, and that the needed mechanisms for logistical support were in place.
- 2.7 To prepare for the move, the Canadian Forces prepared the Table of Organization and Equipment, a document that National Defence uses for all overseas deployments to detail the personnel and equipment that the military will provide. The Canadian Expeditionary Force Command takes the lead on developing the Table of Organization and Equipment in consultation with other stakeholders, such as the Army, Air Force, Canadian Operational Support Command, and the Assistant Deputy Minister (Materiel), which, in particular, provides input on the composition of support services.
- 2.8 As the nature of the mission in Afghanistan has evolved since operations began in Kandahar in 2005, the Canadian Forces has adapted and adjusted. The Canadian Forces recognized that it would need to learn from its experiences in Afghanistan and would identify additional requirements as the mission progressed. The Canadian Forces has responded to changes in mission requirements by adjusting the Table of Organization and Equipment and along with the Army, Air Force, and Assistant Deputy Minister (Materiel), has provided commanders with its equipment, vehicles, and weapons that they reported were needed to carry out the mission.
- 2.9 Since deploying to Kandahar, the Canadian Forces has significantly increased the number of personnel deployed to Afghanistan to support the mission, as each rotation has found that additional personnel were required. Exhibit 2.1 illustrates the changes in the number of personnel making up two key organizations within the Joint Task Force Afghanistan that provide support: the National Support Element, and Health Support Services, which includes personnel at the Canadian-led multinational field hospital at Kandahar Air Field. These elements represent many, but not all, positions within the Joint Task Force that could be regarded as providing support.

Number of personnel

1.000

800

600

Health Support Services

National Support Element—
Civilian and contract staff

National Support Element—
Military staff

Exhibit 2.1 The number of support staff for the Joint Task Force Afghanistan has increased

Source: Department of National Defence

2.10 Exhibit 2.1 shows that between May 2006 and July 2007, the number of support personnel needed for the Joint Task Force Afghanistan had tripled. Between November 2006 and July 2007, much of the increase was made up by increasing positions in health services and civilian and contractor personnel for functions such as equipment maintenance and supply functions.

#### The supply chain has many components

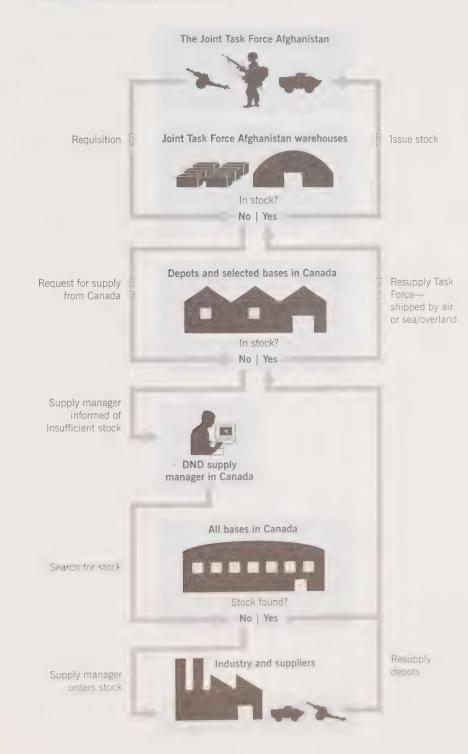
2.11 Supporting the mission requires personnel to manage supplies, such as truck tires, water, medical supplies, and ammunition, to name just a few items. Most everything a soldier may need comes through the supply chain. Personnel must acquire needed items and transport the goods to the users. They must maintain the overall supply chain to plan and purchase goods in advance, so that when requirements are identified in-theatre, the goods are available.

- The operation is supported in-theatre by the National Support Element at Kandahar, which purchases locally and receives shipped goods, and by the Canadian Operational Support Command, which is responsible for the supply depots, including local purchases of items in Canada, and coordinating the transportation of goods into Afghanistan. The Assistant Deputy Minister (Materiel) organization is responsible for buying materiel and ensuring that stocks on hand can meet demands.
- 2.13 When stocks run low in-theatre, requisitions for more are entered electronically into the Canadian Forces Supply System by the supply technicians, who code the request by priority: operationally critical, essential, routine, or replenishment. Technicians also indicate when the goods are needed in-theatre. Requisitions are received at the supply depot, where, if stock is available, items are packaged and sent for transport. Approximately half of the orders placed for Kandahar are needed quickly and are deemed operationally critical or essential. Exhibit 2.2 shows the key steps in the supply chain to send goods to Afghanistan.

#### Focus of the audit

- 2.14 We conducted our audit to determine whether the logistical support to the Canadian Forces overseas deployment to Afghanistan has met the mission's needs. We examined the movement of materiel and supplies into Afghanistan, the maintenance of equipment and the supply of parts to keep equipment in service, and the provision of stocks for operations.
- 2.15 The scope of the audit was limited to this overseas deployment and did not include other deployments also under way. We did not examine the economy of supply chain operations in this area, nor did we examine the mission operations or contracts for the purchases of new military equipment. More details on the audit objectives, scope, approach, and criteria are in About the Audit at the end of this chapter.

Exhibit 2.2 Simplified supply chain operations



# **Observations and Recommendations**

# Supply chain performance

# National Defence is supporting the operation's needs

- 2.16 The logistics effort for the mission has been huge and is key to success. While we did note commanders' concerns about some supply chain shortcomings, they have reported that they are, overall, satisfied with the support and equipment that has been provided to the mission, which, in their view, has made the Canadian Forces one of the best-equipped militaries in the coalition.
- 2.17 However, while the supply chain has achieved, for the most part, the desired results, it has weaknesses that, if not addressed, may threaten its ability to sustain the mission over time. With each review by the Department of its holdings in Kandahar, there have been ongoing concerns over items that have been lost track of because storage, tracking, and retrieval methods are generally less capable than those used in the supply chain in Canada. While there is little information available to quantifiably assess the supply chain's performance, our observation is that results are often achieved more by military personnel's concerted efforts than by the system's design.
- 2.18 Some of the system's weaknesses are understandable given the mission's fairly sudden shift in 2005 to a combat role of relatively high intensity for Canada—an overseas mission of a scale that the Canadian Forces has not faced since the Korean War. We have reviewed the audit reports for the supply operations of the United States and British forces and they show problems similar to those experienced by the Canadian Forces. This suggests, given the long experience of both those countries in overseas combat missions, that some of the issues may be inevitable for military operations with long supply chains. Nonetheless, it is important that the problems be addressed.
- 2.19 The Canadian Forces Supply System and depots are organized to supply materiel to military bases in Canada and respond to their needs in a timely way. The system also provides many of the supplies needed by the operation in Afghanistan. In order to move supplies from depots in Canada to Kandahar, the Canadian Forces has relied for the most part on chartered heavy lift aircraft from the private sector because requirements have exceeded the available capacity of the Canadian Forces' fleet of CC-150 Polaris Airbus (A310) aircraft and aging CC-130 Hercules aircraft. Supporting the operation in Kandahar requires transporting by chartered aircraft, on average, about 85 tonnes of supplies each week. During the audit, the Department's

needs ranged from chartering as many as nine aircraft per week to as few as none but, on average, the Canadian Forces needed two or three commercial aircraft per week to either fly cargo into Afghanistan or have items returned; for example, damaged vehicles or equipment for repair in Canada. During the same time, National Defence used its own aircraft to move supplies and personnel to Afghanistan from Canadian Forces Base (CFB) Trenton about once per week.

To a lesser extent, the Department has begun using commercial ships to support its operation in Afghanistan. Ships transport some less urgent equipment and supplies. Between an ocean port in Southwest Asia and Kandahar, the items are transported by road or air.

## Transportation limitations slow the delivery of supplies

- According to the Canadian Forces, the Joint Task Force Afghanistan should expect delivery of supplies from Canada to take 10 to 20 days. Department data showed that about half of items shipped do not reach Kandahar from the main supply depot in Canada within this expected time frame.
- 2.22 Most cargo travels through CFB Trenton, where it is loaded onto military or commercial aircraft. Ensuring aircraft are loaded at CFB Trenton in a timely way has depended upon aging cargo loaders to lift containers, pallets, and equipment on or off aircraft. We found that when the Department's loaders were awaiting repair, the cargo loading and flights were delayed, which added to the time it took to move supplies to Afghanistan. We found that items often arrived at CFB Trenton already late for shipment to Afghanistan, but once items did arrive, about 15 percent sat waiting to be loaded onto an aircraft for a further 20 days or more before being loaded. The shipments often included items considered operationally critical or essential.
- 2.23 The proportion of some types of materiel-handling equipment that is in working order has been unacceptably low. It was reported that some materiel-handling equipment deteriorated so badly that it needed immediate replacement. Logistic reports from Kandahar showed that the shortage and lack of working equipment was affecting the ability to support day-to-day operations. Logistic reports also stated that the unavailability of working materiel-handling equipment at CFB Trenton, used to load and unload supply planes, delayed the return of various types of equipment shipped by these planes for repair. The Department has informed us that to address these problems, it has been acquiring additional materiel-handling equipment.

## Meeting required delivery timelines is difficult

- 2.24 Department data also showed that most requests for supplies to Afghanistan from the main supply depot in Canada asked for the items within 15 days or less. While we found that the supply chain did deliver almost all goods requested, we found that most did not arrive by the time they were asked for. Our analysis of data provided by the Department indicates that less than 10 percent of operationally critical or essential items requested from the main depot in Canada were received in Kandahar by the required delivery date. Nearly one quarter of all requests were already late before being shipped out of the main depot. At the time of our visit to Kandahar Air Field, the supply system showed that 3,467 requisitions were outstanding, of which 61 percent were already past the required delivery date. These requisitions were for items from the main depot in Canada for spare parts, tools, clothing, weapons, and equipment such as engines and transmissions.
- 2.25 We observed that requests are identified in the system with both required delivery date and priority. Some 47 percent of requests for items from the main depot in Canada are coded as either operationally critical or essential. As well, 81 percent of these orders ask for delivery within 10 days—a cycle that has been very difficult to achieve. The supply chain is expected to use the priority code in conjunction with the required delivery date to determine the most appropriate and economic mode of transportation to meet the required delivery date. For example, less urgent items can be shipped by sea and road, which is less costly than by air. However, most items were needed within a time frame that only shipment by air could accommodate.
- 2.26 We observed that while some supplies needed on a priority basis arrived quickly, often supplies listed as operationally critical or essential did not. We wanted to know if there was an impact on operations if supplies that were described as operationally critical or essential arrived late. We could find no reports of late supplies seriously affecting operations. However, we did review reports where delays in receiving parts reduced the number of military vehicles and equipment ready to be put into service.
- 2.27 We also found that the system sometimes recorded required delivery dates that were the same as the date the request was made, thus making timely delivery impossible. We found that these unrealistic required delivery dates, combined with high priority coding, resulted in special handling and increased transportation costs. The Department is currently redrafting its instructions to provide better guidance on

requesting and shipping supplies and to try to minimize high priority demands.

2.28 We found that higher priority items were generally transported faster than those of lower priority. Nevertheless, we noted that when items were identified as particularly high priority by the user in-theatre, those responsible for getting them to Kandahar did not rely on the supply chain, but instead made phone calls back to Canada to ensure that items were flagged and shipped right away.

#### Goods are tracked in transit but can become lost once delivered

- 2.29 We found that in many cases when supplies seemed to be arriving late, the goods had already been received but the mission in Afghanistan was unaware. The mission has a database that lets users know if items are in transit. It cannot, however, provide information on when supplies are likely to arrive. The Department is shipping 85 tonnes of goods weekly by contracted airlift to the mission, and we found that it is able to track goods while in transit, but can lose sight of supplies once they arrive at their destination. In Kandahar, it can be difficult for supply technicians who run the supply warehouses that receive shipments to know what has arrived or where to find it.
- 2.30 National Defence has an established system of stock numbers, package tracking numbers, and waybills to know what the requested items are and where they are in the supply chain, but technicians receiving the planeloads of supplies are required to deal with shipments manually. Supply technicians must physically find the goods, check their condition and quantity, and write down that they have been received. Therefore, supply technicians in Kandahar may not actually know that some supplies have arrived until they find the boxes and put them on the shelves. As a result, some items may be reordered or even forgotten, which can result in surplus stocks, unnecessary delays, or wasted shipments. National Defence regularly reviews its holdings in Afghanistan to maintain control and sends in rotation support assistance teams to conduct inventory counts. During the last review of its inventory holdings, the team found that the Department had lost track of a significant amount of inventory—over \$7 million of items could not be located—but it found another \$6.6 million of items that were not listed as part of the mission's holdings. The mission may have been unaware that it had the items, which included spare parts to repair equipment.
- **2.31** Apart from ammunition and medical supplies, there is no single warehouse for supplies. Warehousing usually involves storing items in





Supplies can become lost in these sea container warehouses in Kandahar.

one or more of hundreds of sea containers stacked around the camp. As a result, if an arriving item is put into storage without being logged in the system indicating where it is stored, it can become lost.

2.32 The Department has recognized that it has a shortage of supply personnel to deal with the volume of goods arriving in Kandahar and, from time to time, it sends in technical assistance teams to help clear backlogs. It also increased the number of contract personnel it uses to perform supply functions. However, the technicians are using a bar coding system in a manual way, not in the electronic way they are trained to do in Canada. This slows down the receipt of goods in Afghanistan.

**2.33** Recommendation. National Defence should review its practices for tracking material once the material has arrived to ensure the arrival and storage is accurately recorded in a timely manner.

The Department's response. Agreed. The Department has initiated a project that should address this issue. The first phase of the Asset Visibility Project is to put in place a Canadian radio frequency identification capability to track consignments moving to and from Afghanistan. This capability will remove our current dependency on U.S. support and is expected to be in place by December 2008.

The second phase of the project is to develop an interim capability that will provide visibility of items in transit both within Canada and abroad. This interim capability is expected to be in place by 2009.

The third phase is to develop a comprehensive capability that will provide real time, or near-real time, visibility of assets throughout their life cycle. In other words, a system that provides visibility from the time the Department takes custody of an asset until the time we dispose of that asset.

# Supply chain performance monitoring is improving

- 2.34 National Defence is starting to better monitor the performance of its supply system to determine whether it can respond to needs in a timely way. The Department does not have data on system performance and is currently working to gather data to monitor how well the system can meet user needs.
- 2.35 We wanted to examine whether items not held in the supply system, such as parts shipped directly from the manufacturer or locally purchased items delivered directly to Kandahar, were received in a timely manner, but the Department could not provide us with reliable

data for analysis. The Department had also been attempting to measure the rates of stock-outs—the temporary unavailability of an item—but we found significant shortcomings in its methodology and data.

Recommendation. National Defence should continue its efforts to develop the performance measurement of its supply system, including assessing whether supplies are received in a timely manner appropriate to priority and need.

The Department's response. Agreed. The Department has initiated a performance measurement system for the supply chain. To date, 15 key performance indicators have been developed to monitor system performance using data from the Canadian Forces Supply System. At the conclusion of a user trial, this initiative is set to roll out to a number of supply management organizations in the fall of 2008.

The 15 key performance indicators developed so far focus on a variety of key measures within the Department's Supply System, such as average cycle times, depot stock reactivation rates, requisition

Work is continuing to prioritize and further develop performance indicators based on the Department's strategic direction and the perceived needs of the supply chain community.

#### Stock levels

# Management of stock levels needs to be improved

2.37 The Joint Task Force Afghanistan codes the requisitions it puts into the supply system according to priority and required delivery date. Anything coded operationally critical or essential is needed for the success of the mission. We found that 19 percent of operationally critical or essential requests were delayed at the main depot in Canada for 10 days or longer due to stock-outs or other reasons the Department was unable to adequately provide. One possible explanation given was that perhaps the slips produced by the system that tell staff what items to take from the shelves for shipment had become misplaced within the depot. While the Department has not been compiling reliable stock-out statistics, stock-outs have clearly been a significant factor, but not the only factor, contributing to delays. Data obtained from the Department indicates that approximately 16 percent of items requested from the main depot in Canada for Kandahar during September 2007 were temporarily out of stock.

2.38 The supply system has automatic reorder points for some stock held in Kandahar: when a minimum level is reached, more stock is supposed to be automatically ordered and delivered before levels on

hand reach zero. We noted that the base at Kandahar is under the same stock restrictions as other Canadian units, that is, stock to last 30 days, with some exceptions, is to be held at the supply warehouse. However, it can often take more than 30 days for the system to deliver supplies that have been ordered. Therefore, stock-outs can occur. We found that for about 12 percent of the items for which automatic reorder levels were set in Kandahar, stock on hand was zero.

- 2.39 Materiel managers told us that, for spare parts, their assumptions of stock usage did not always fulfill the higher maintenance requirements in Afghanistan. Therefore, spare parts were often needed sooner than supply managers could acquire them from suppliers. As a result, stock-outs tended to occur for spare parts for combat equipment being used in Afghanistan under difficult conditions. We found that the Department had run out of some spare parts for equipment such as the light armoured vehicles and the heavy logistics trucks.
- 2.40 We also noted that stock-outs tended to occur for equipment bought as an unforeseen operational requirement to provide additional resources for the Joint Task Force. Planning assumptions made when equipment was acquired underestimated the rate at which parts would need replacement and stocks ran out before they could be replenished. This occurred partly because some of these items had not been used in combat by Canada before this mission. For some of the new equipment, rapid replenishment was simply not possible because these items were not readily available from the manufacturer. The Department informed us that encountering problems in supporting new equipment is an assumed risk of these fast-tracked acquisitions and is balanced against the benefits provided by the new equipment that enhance combat effectiveness and soldier survivability.
- 2.41 Materiel managers determine the appropriate stock level at which replacement orders should be made. They need to know how quickly stock is used and how quickly new stock can arrive. Therefore, materiel managers need to know how often there are stock-outs and better match these to the procurement turnaround times to ensure that the mission does not run out of needed supplies and that operationally critical or essential stock levels do not fall to zero.

# Parts shortages are delaying repairs

2.42 The Canadian Forces has several maintenance shops at Kandahar Air Field and can also repair equipment both at forward-operating bases and outside the camps. Our audit found that parts availability has been a factor in making timely repairs. While several thousand

different parts are warehoused by the Canadian Forces in Afghanistan, there have been times when equipment was waiting for parts from outside Afghanistan, such as from Canada, in order to be repaired. Between December 2006 and October 2007, equipment status reports prepared in Kandahar show that for the main combat equipment awaiting repair, 65 percent of the time, on average, they were waiting for parts to be delivered from either outside theatre, such as the main depot in Canada, or within theatre, such as between a warehouse at Kandahar Airfield and a forward-operating base. The other 35 percent of time was spent waiting for available labour.

- We found that the unavailability of parts from suppliers contributed to parts shortages. For example, shortages of spare parts from the manufacturer contributed to the armoured wheeled vehicle known as the Nyala being sent back to Canada. The three Nyala in Kandahar were out of service for months and subsequently returned to Canada as the parts could no longer be acquired, due in part to obsolescence.
- 2.44 Although undesirable, maintenance personnel are permitted, when necessary, to borrow parts from one piece of equipment in order to make timely repairs to another. Our audit found that borrowing was necessary on some critical fleets in order to keep enough equipment available to meet mission needs.

#### The Canadian Forces Hospital is maintaining its stocks

- Since February 2006, Canadian Forces medical staff has run the multinational field hospital at Kandahar Air Field. Data provided for the period February to July 2007 shows that the hospital treated several thousand coalition and Afghan soldiers as well as civilians. It is a full-care facility that needs the support any hospital would require to run trauma resuscitation, operating rooms, intensive care and critical care wards, mental health care, and physiotherapy, as well as a pharmacy, a laboratory, and a radiology unit. Hospital support has three basic requirements: qualified personnel, medical supplies in stock, and functioning medical equipment.
- 2.46 Because of the specialized handling and storage needed for medical supplies and equipment, National Defence manages its medical supply chain separately from the general supply system. The Department requires enough stock to respond to mass casualties and sustain medical operations for 26 days. We found, however, that supplies from Canada can take weeks to arrive. To prevent stock from falling short, the practice in Kandahar has been to carry 90 days of



Canadian-led multinational hospital at Kandahar Air Field.

Standing offer of agreement—An agreement between the government and suppliers to provide goods and services at prearranged prices under set terms and conditions. These are not guaranteed contracts, but suppliers with standing offers can be called upon when and if needed.

inventory. Statistical information was not available on stock levels so we were unable to determine the extent to which stock-outs occurred. However, senior staff informed us that there have been a few times where the hospital has run critically low on certain medical supplies, but that the hospital staff were able to mitigate any potential impact on patient care.

- 2.47 Medical officials informed us that when stocks of medical supplies run low, it often occurs due to delays in procuring the items rather than shipping them. Medical supplies can be expensive and those that cost over \$5,000 must go through a contracting process, which takes time. National Defence has been able to fast-track some items for immediate operational needs within 48 hours; and has put in place some standing offers of agreement to speed up the process. However, routine purchases can take several weeks to several months to complete, especially if the items cost more than the \$5,000 limit (Exhibit 2.3).
- 2.48 We also found that as the lead nation, Canadian medical personnel make up the majority of staff at the hospital. Coalition partners have also committed to providing medical staff but, in some cases, have not been able to do so. Therefore, in order to ensure patient care and cover shortfalls, National Defence has sent more medical professionals to Kandahar than initially envisioned, including civilian medical staff. In addition, the hospital has reported that it has insufficient technical staff to adequately maintain and repair the medical equipment. Due to a limited number of medical equipment technicians available from within the military, the Department is considering hiring additional staff.

#### Exhibit 2.3 Purchasing expensive medical supplies can be a lengthy process

Soldiers in Afghanistan are protected by body armour, helmets, and goggles, which has saved lives by protecting vital areas. Consequently, the hospital treats a large number of serious injuries to arms and legs. Between February and July 2007, 281 orthopaedic surgeries were performed, representing half of all the surgeries during that time. Surgeons needed large numbers of orthopaedic surgical pins to fix and correct the bone fractures on wounded soldiers and civilians.

Orthopaedic pins are expensive and since orders for pins cost more than the \$5,000 procurement approval limit, any purchases of more pins had to go through the government contracting process. In April 2006, National Defence recognized the high demand for these items and initiated negotiations for a standing offer of agreement to ensure a quick supply. By October 2006, an agreement was signed with a vendor, with a purchase limit of \$40,000. However, by this time the Canadian Forces medical system needed over \$400,000 in surgical items from the vendor and it was not until November 2006, seven months after the need was identified, that stocks were shipped to Kandahar.

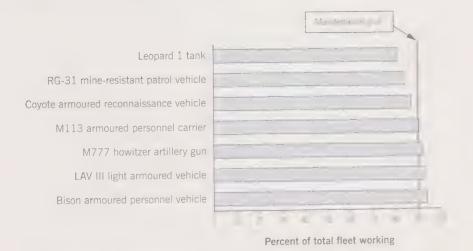
# **Equipment availability**

Equipment serviceability—The number of pieces of equipment ready to be used for their intended purpose from among those available. An item is not serviceable if it needs maintenance or repair. For example, if there were 10 trucks available, of which 7 could be put into service and 3 were undergoing repair, the serviceability rate would be 70 percent.

## Maintenance personnel are keeping most combat equipment fleets operational

2.49 Our audit expected to find that the Department provided the operation with the serviceable equipment it needed. We found that the overall serviceability of the main combat fleets of vehicles and other equipment has been at or close to departmental expectations, as illustrated in Exhibit 2.4. This is despite harsh operating conditions, damage from enemy action, parts shortages, and modifications made on-site. The Department has supplemented the maintenance function with contract personnel and technical assistance teams. The commanders have established a maintenance goal of 90 percent serviceability for the combat fleets and we found that many combat fleets were close to this goal, ranging from 80 to 95 percent.

Exhibit 2.4 Most fleets of combat equipment are close to or meeting the maintenance goal (December 2006—October 2007)



Source: Department of National Defence

# Maintaining a consistent level of serviceability has been a challenge

2.50 The Department has had difficulties maintaining a consistent level of serviceability. This has been a particular challenge for the new equipment introduced directly to Afghanistan, purchased to respond to unforeseen operational requirements. National Defence expected that unforeseen operational requirements would be encountered as the mission evolved and needs were better understood. Since deploying to Afghanistan, the Department has responded to a number of unforeseen operational requirements and acquired several pieces of equipment, including the mine-resistant RG-31 wheeled patrol vehicle, the

long-range precision M777 howitzer guns (155mm), uninhabited aerial vehicles, Leopard 2 tanks, and systems to identify, detect, and defeat improvised explosive devices. The Joint Task Force has found that some items have not been as serviceable as planned.

- 2.51 Because the new equipment is being introduced directly into action, the Department is challenged to ensure that it can properly support it, such as by providing an adequate supply of parts, and solving serviceability issues that are associated with any new piece of equipment but which would normally be dealt with prior to deployment and after lengthy testing. Our audit found that the Department has had difficulties in ensuring an adequate supply of spare parts for a number of new acquisitions after the initial purchase of spare parts was used faster than expected.
- 2.52 In 2003, before beginning operations in Kandahar, the Department introduced tactical uninhabited aerial vehicles into operations at Kabul. About 85 flights were flown until June 2004 when the vehicles were no longer sustainable due to crashes and failures. In February 2006, the vehicles were reintroduced into operations at Kandahar, resulting in a number of challenges, including crashes, frequent flight cancellations due to equipment problems, and shortages of spare parts, with long lead times to reorder. By September 2006, the Department recognized that the vehicles' sustainability was again at risk. A number of actions have been taken, including extensive borrowing of parts from other aircraft to keep the aircraft operating. Our review of flight data from February to August 2007 shows that Canadian Forces operators, maintenance personnel, and supply personnel managed to keep the fleet operational but serviceability and parts availability issues persisted.
- 2.53 Recommendation. National Defence should review how it establishes stock levels for the parts it needs to keep existing and new equipment operating at expected serviceability targets, with a view to obtaining and delivering parts to users in a timely way. It should take into account changes as wear and tear to equipment increases on deployments, as better information becomes available on the performance of new equipment, or as the level of support from the manufacturers changes.

The Department's response. Agreed. The Department is now implementing a Distribution Resource Planning tool, complete with a modelling capability that is expected to significantly improve the ongoing identification of inventory requirements. This electronic tool will improve the Canadian Forces Supply System by addressing a

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significant weakness in inventory rationalization and optimization. It will also provide the necessary information to make complex decisions regarding what to repair, and what to buy, in what quantities, and where to position it. Rollout is expected to begin in the spring of 2008.

The rapid introduction of new equipment to a theatre can be mitigated by the early identification of an initial provisioning plan for spare parts. The initial provisioning plan will be entered into the electronic Distribution Resource Planning tool and will be monitored by comparing actual usage to the estimated requirements identified in the plan. Within a few months, the Distribution Resource Planning tool will identify the optimal forecast methodologies and algorithms to use for the equipment in question. At that point, the initial provisioning plan can be subsumed into the normal day-to-day inventory management of the Distribution Resource Planning tool.

#### Maintaining reserve stocks of equipment has been difficult

- The Canadian Forces in Kandahar keeps a reserve fleet of equipment, known as operational stock, to be used when the number of available vehicles declines. For example, a LAV III light armoured vehicle damaged beyond local repair could be replaced by a vehicle from the reserve if one is available. This reserve stock has also been used in Kandahar as a pool through which equipment is rotated in order to undergo upgrades, such as the installation of additional armour and protection, without affecting the number of pieces of equipment available for operations. Reserve stock has been authorized to be held in-theatre for some but not all fleets. We were informed by the Department that the decision to establish reserve stock is based on several factors, including estimates of the rates at which vehicles are damaged beyond local repair, and the fleets' sustainability.
- Through our review of equipment status reports prepared in Kandahar, we found that reserve stocks have been essential to keeping available the needed number of equipment to offset losses when a vehicle is destroyed in combat or cannot be repaired locally. However, when authorized reserve stocks become depleted, there are no more left to replace any further losses. In some instances, where reserve stock had been authorized, there was zero quantity available. As a result, in a limited number of instances, the amount of equipment available for operations in-theatre declined.
- 2.56 The Department informed us that overall, reserve stocks have met its needs because the Canadian Forces can adapt and adjust

## Maintaining serviceability levels of support vehicles has been more difficult

2.57 In addition to the main combat fleets, the Canadian Forces uses several hundred support vehicles ranging from militarized logistics vehicles to non-military vehicles. These are needed to transport personnel, to move supplies to forward-operating bases, to recover damaged equipment, and to handle materiel at warehouses. The Canadian Forces has set an 85 percent serviceability goal for most of these non-combat vehicle fleets. Our audit found cases where it has been difficult to maintain serviceability of several types of logistical support equipment.

2.58 There have been low rates of serviceability among several types of specialized heavy engineering equipment (Exhibit 2.5). Several rotations of personnel have reported concerns on the serviceability of these fleets. Problems were encountered with the aging fleet of heavy wheeled logistics vehicles used to carry cargo. The Joint Task Force also experienced problems with its materiel-handling equipment such as forklifts.

Exhibit 2.5 Various support equipment has serviceability issues



#### **Armoured Engineering Vehicle**

A variant of the Leopard tank. Average serviceability from December 2006 to October 2007 was 63%. At times there has been zero serviceability. Shortage of parts has been a factor.



#### Multi-Purpose Engineer Vehicle

A heavily armoured backhoe and loader. It was deployed for the first time in December 2006. Theatre has reported that during the first six months, the vehicle had been subject to frequent breakdowns and experienced low serviceability.



#### Improved Landmine Detection System

The equipment in-theatre had been allowed to reach a state of disrepair and was grounded. A team was sent to Kandahar Air Field in 2006 but was unable to make repairs. Equipment was returned to Canada, replaced with upgraded equipment during the fall of 2007, and placed back into service in the theatre.



#### Heavy Logistic Vehicle Wheeled

This aging fleet is used to transport cargo and is used extensively to resupply forward-operating bases. The operations have experienced reliability issues, with serviceability at 69%. The Department is in the process of procuring a replacement it believes will be better suited for operations in Afghanistan.

Source: Department of National Defence



Heavy equipment transport truck and trailer borrowed from the Government of the Netherlands.

Source: Department of National Defence

2.59 Our audit also found that the mission experienced shortcomings in the equipment used to recover damaged vehicles and bring them back to Kandahar for repair or return to Canada. We found that the Department is addressing these concerns. As one example, it obtained and shipped directly to Kandahar several heavy equipment transport trucks borrowed from the Netherlands government, and provided the training on how to use and maintain this equipment.

# Conclusion

- 2.60 National Defence is supporting the deployed operation in Afghanistan—an overseas mission of a scale the Canadian Forces has not seen since the Korean War. However, we found some shortcomings in the supply chain that need to be addressed or the Canadian Forces risks having difficulty supporting the mission over time. For example, while we found that supplies reached their destination, this was often due more to the concerted efforts of personnel rather than by the system's design. When we asked those involved in the command of, planning for, and conduct of military operations about the impact of shortcomings discussed in this report, we were told that these deficiencies had not significantly affected operations as the Canadian Forces was able to adapt and adjust.
- 2.61 To meet the support requirements of the mission, the Department has needed to increase the number of support personnel in-theatre. Much of the increase has been in the number of contract personnel used to perform functions such as supply and equipment maintenance. Technical assistance teams have also been sent to Kandahar to assist support functions.
- 2.62 While the supply chain has been able to respond to deliver to Kandahar the supplies needed, we found that most items do not arrive in Afghanistan by the required delivery date. We found that there have been parts shortages and stock-outs of needed parts and supplies, which affected the ability to keep some equipment serviceable. The operation has been challenging on equipment and maintenance. Some key fleets are difficult to maintain because of spare parts shortages and reduced reserve stocks as some fleets begin to wear out.
- **2.63** The system has not provided sufficient information to track when supplies have arrived in Kandahar, which has resulted in some multiple ordering of goods along with surpluses and increased the difficulty in locating needed stock.

2.64 The Department is working to improve its performance measurement of the supply system to give it better information on whether stocks are available when needed and whether supplies are arriving in a timely way. More information on requisition status and when to resupply to match the usage rates in Afghanistan would also improve performance monitoring.

# About the Audit

#### **Objectives**

The overall objective of the audit was to assess whether the logistical support provided by the Department of National Defence has met the needs of the deployed operation in Afghanistan. The objectives were to examine the following:

- · the support required for the deployment, including planning;
- the need for personnel for logistical support, including alternative contracting arrangements;
- whether equipment is maintained to required standards and whether spare parts are available as needed; and
- the capacity of the Department to transport materiel into theatre to meet demands in a timely manner.

# Scope and approach

The focus of the audit was on the support provided to the Canadian Forces' mission in Afghanistan since February 2006, after the operations moved to Kandahar. We examined how well the supply chain was able to meet the needs of the Joint Task Force Afghanistan. We looked at how the Department introduced and supported equipment into the mission. We examined whether the Department was able to maintain adequate stock levels for the repair and maintenance of equipment. We examined how the Department maintains accountability and visibility of items on deployed operations.

The audit team conducted field work at a number of locations: Canadian Forces Supply Depot (Montréal), Canadian Forces personnel training for Afghanistan at Canadian Forces Base Wainwright, at the Theatre Support Element and at the Joint Task Force Afghanistan (Kandahar), and the air movements unit at Canadian Forces Base Trenton. In the National Capital Region, we conducted interviews and obtained information from a number of organizational units, including Assistant Deputy Minister (Materiel), Assistant Deputy Minister (Finance), Canadian Land Staff, Canadian Air Staff, Canadian Expeditional Force Command (CEFCOM), Canadian Operational Support Command (CANOSCOM), Cluet of Military Personnel, Strategic Joint Staff, and National Defence Chief of Review Services.

The midit included analysis of operational data collected from several sources, including movement data from the National Materiel Distribution System (NMDS) and the Canadian Forces Supply System (CFSS).

The audit included a review and analysis of various internal reports, including Commander's Mid-Tour and Ends to loun change in command reports, site inspection visit reports, comptrollership site inspection visit reports, rotation staff assistance reports, weekly logistic reports submitted to the Canadian Lapedine House Command prepared by the lount Lask Lorce Mohamistan, Jady equipment sinus reports, combat logistical patrol reports, and internal audit and evaluation reports.

While in Ambinustin, the audit term conducted all undit work at the Karabhar An Field and this security reasons did not visit other sites, such as the provincial reconstruction team's operations, or forward-operating bases.

The scope of the audit was limited to deployed operations in Afghanistan and did not include other deployments under way nor did it examine the support to the operations of the Canadian Special Operations Forces Command (CANSOFCOM). The audit did not examine the economy of the supply chain operations in this area, or the contracts for new military equipment purchased to support the mission, nor did the audit examine how supporting the mission in Afghanistan may be affecting the Department back in Canada.

#### Criteria

The audit was based on criteria obtained from the Department of National Defence contained in its military doctrine and instructions for international operations, including the following:

- Support functions in-theatre will be able to effectively accomplish their assigned tasks.
- The provision of support personnel will be effective and sufficient to meet operational requirements.
- The supply chain will ensure that appropriate levels of materiel are provided to the theatre of operations, including supplies, ammunition, spare parts, and equipment.
- The Canadian Forces will adequately keep track of and maintain accurate records of materiel deployed to theatres of operation.

## **Audit work completed**

Audit work for this chapter was substantially completed on 30 October 2007.

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# **Appendix** List of recommendations

The following is a list of recommendations found in Chapter 2. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

Recommendation	Response
Supply chain performance	
2.33 National Defence should review its practices for tracking materiel once the materiel has arrived to ensure the arrival and storage is accurately recorded in a timely manner. (2.29–2.32)	Agreed. The Department has initiated a project that should address this issue. The first phase of the Asset Visibility Project is to put in place a Canadian radio frequency identification capability to track consignments moving to and from Afghanistan This capability will remove our current dependency on U.S. support and is expected to be in place by December 2008.
	The second phase of the project is to develop an interim capability that will provide visibility of items in transit both within Canada and abroad. This interim capability is expected to be in place by 2009.
	The third phase is to develop a comprehensive capability that will provide real time, or near-real time, visibility of assets throughout their life cycle. In other words, a system that provides visibility from the time the Department takes custody of an asset until the time we dispose of that asset.
2.36 National Defence should continue its efforts to develop the performance measurement of its supply system, including assessing whether supplies are received in a timely manner appropriate to priority and need. (2.34–2.35)	Agreed. The Department has initiated a performance measurement system for the supply chain. To date, 15 key performance indicators have been developed to monitor system performance using data from the Canadian Forces Supply System. At the conclusion of a user trial, this initiative is set to roll out to a number of supply management organizations in the fall of 2008.
	The 15 key performance indicators developed so far focus on a variety of key measures within the Department's Supply System such as average cycle times, depot stock reactivation rates, requisition volumes, and requisition satisfaction.
	Work is continuing to prioritize and further develop performance indicators based on the Department's strategic direction and the

perceived needs of the supply chain community.

#### Recommendation

# Response

#### **Equipment availability**

National Defence should review how it establishes stock levels for the parts it needs to keep existing and new equipment operating at expected serviceability targets, with a view to obtaining and delivering parts to users in a timely way. It should take into account changes as wear and tear to equipment increases on deployments, as better information becomes available on the performance of new equipment, or as the level of support from the manufacturers changes. (2.50-2.52)

Agreed. The Department is now implementing a Distribution Resource Planning tool, complete with a modelling capability that is expected to significantly improve the ongoing identification of inventory requirements. This electronic tool will improve the Canadian Forces Supply System by addressing a significant weakness in inventory rationalization and optimization. It will also provide the necessary information to make complex decisions regarding what to repair, and what to buy, in what quantities, and where to position it. Rollout is expected to begin in the spring of 2008.

The rapid introduction of new equipment to a theatre can be mitigated by the early identification of an initial provisioning plan for spare parts. The initial provisioning plan will be entered into the electronic Distribution Resource Planning tool and will be monitored by comparing actual usage to the estimated requirements identified in the plan. Within a few months, the Distribution Resource Planning tool will identify the optimal forecast methodologies and algorithms to use for the equipment in question. At that point, the initial provisioning plan can be subsumed into the normal day-to-day inventory management of the Distribution Resource Planning tool.

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# Report of the Auditor General of Canada to the House of Commons—May 2008

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Auditor General
of Canada
to the House of Commons

MAY

Chapter 3 Oversight of Air Transportation Safety— Transport Canada



Office of the Auditor General of Canada



# 2008



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MAY

Chapter 3
Oversight of Air Transportation Safety—
Transport Canada



The May 2008 Report of the Auditor General of Canada comprises A Message from the Auditor General of Canada, Main Points—Chapters 1 to 8, and eight chapters. The main table of contents for the Report is found at the end of this publication.

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# Chapter

3

Oversight of Air Transportation Safety
Transport Canada

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# Oversight of Air Transportation Safety Transport Canada

# **Main Points**

#### What we examined

Transport Canada's responsibilities for air transportation safety include promoting safety; developing regulations; and overseeing compliance with them by airlines, aircraft maintenance companies, manufacturers, airports, air traffic control, and other sectors of the industry. The Department is now adopting a new approach to oversight, based on the implementation of safety management systems (SMS). The approach will require aviation companies to have in place a system for managing the safety risks linked to their operations. Transport Canada's oversight role will change from one focused solely on conducting inspections and audits to one of assessing the processes that companies have in place for ensuring safety—although direct inspections and audits may still be carried out if necessary.

We examined how Transport Canada has managed the transition to the new approach for the first sectors to make the shift: airline operators and associated aircraft maintenance companies. We did not examine the level of air transportation safety in Canada. Nor did we look at security—that is, protection against deliberate acts such as terrorism.

## Why it's important

The civil aviation sector is a key element of Canada's transportation network and its economy. In 2006, air transport in Canada carried 99 million passengers, up 6 percent from 2005, and the number is expected to grow 40 percent from 2006 to 2015. According to the International Civil Aviation Organization (ICAO), the rapidly expanding aviation industry and the limited resources of oversight authorities make it increasingly difficult to sustain the existing approach to managing safety. ICAO has stated that by 2009, each member country must establish a safety program requiring aviation companies to implement a safety management system acceptable to the country's regulating authority.

For effective oversight, it is critical that the transition to the new approach be well managed, that oversight continue throughout the transition, and that Transport Canada understand and mitigate the risks inherent in the transition.

#### What we found

- As the first civil aviation authority to put in place regulations requiring aviation companies to introduce SMS, Transport Canada developed its own approach. For example, it conducted pilot projects with airlines and small operators and used the results to establish milestones. It also monitored activities and made adjustments to ensure that all regions applied procedures consistently. However, in planning for the transition, the Department did not document risks, such as the impact of the transition process on oversight of air transportation safety, and identify actions to mitigate these risks. Nor did it forecast the overall costs of managing the change.
- Resources have been shifted from traditional oversight activities to SMS activities. However, the Department has not measured the impact of this on the frequency of traditional oversight activities.
- Transport Canada has not yet identified how many inspectors and engineers it needs, with what competencies, during and after the transition. The impact of SMS is being addressed in the reorganization of the Department's Civil Aviation program, now under way. Given that this is not expected to be completed before the end of 2009, Transport Canada could find itself unable to recruit the right mix of skills when it needs them.
- The Department has not developed short- and medium-term performance indicators—those that could signal a need for closer attention or action in a particular area—to measure the impact of its civil aviation activities.

Transport Canada has responded. The Department agrees with all of our recommendations. Its detailed responses follow each recommendation throughout the chapter.

# Introduction

#### Transport Canada's role in civil aviation

- 3.1 Transport Canada's civil aviation mandate derives primarily from the Aeronautics Act, the Canadian Aviation Regulations, the Transportation of Dangerous Goods Act, 1992, and the standards of the International Civil Aviation Organization (ICAO). Under the Aeronautics Act, the Minister of Transport, Infrastructure and Communities has broad powers to inspect, audit, and enforce regulations related to any aircraft or airport, or any premises used for the design, manufacture, distribution, maintenance, or installation of aeronautical products.
- 3.2 Transport Canada's mission for civil aviation is "to develop and administer policies and regulations for the safest civil aviation system for Canada and Canadians using a systems approach to managing risks." The Department defines safety as the condition where risks are managed to acceptable levels, and determines this on a case-by-case basis through a risk assessment process. Transport Canada's responsibilities include
  - the development of laws, regulations, and policies related to civil aviation safety;
  - licensing of aviation personnel;
  - certification of aviation companies and products, such as aircraft and engines;
  - · safety education and promotion; and
  - oversight of aviation companies to assess their compliance with safety regulations.
- 3.3 The Department is involved in all aspects of the aviation industry, including air operators (Canadian and foreign airlines, and smaller operators), maintenance companies, aircraft manufacturers, airports, and air traffic control (Exhibit 3.1).

#### Organizational structure

3.4 Transport Canada carries out its responsibilities for civil aviation through the Civil Aviation Directorate at headquarters in Ottawa and the Civil Aviation branches in the regions. Together these constitute the program known as Transport Canada Civil Aviation (Exhibit 3.2). The Civil Aviation Directorate is part of Transport Canada's Safety and Security Group, which is responsible for developing regulations and national standards; implementing safety and security oversight

# Some facts about Canada's civil aviation industry

- Canada's civil aviation aircraft fleet is the second largest in the world.
- Canada has more than 2,000 air operators, ranging from airlines with scheduled international services to single-aircraft charter companies.

programs in the aviation, marine, rail, and road modes of transportation; and regulating the transportation of dangerous goods.

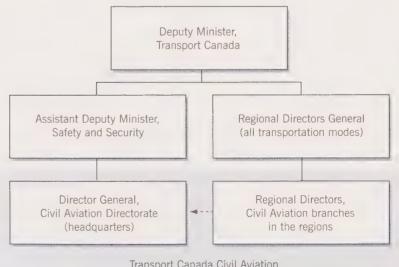
In each region, the Director of Civil Aviation reports to a Regional Director General for all transportation modes, who in turn reports directly to the Deputy Minister. The regional directors of Civil Aviation have a functional reporting relationship with the Director General, Civil Aviation, whereby headquarters is authorized to issue policies and procedures and to monitor regional compliance with the national program.

Exhibit 3.1 Elements of the aviation industry regulated by Transport Canada Civil Aviation

Air operators certified to fly in Canada	2,324
Registered aircraft	29,686
Aviation personnel and industry delegates	84,117
Approved maintenance companies	985
Aeronautical manufacturers	115
Certified airports and aerodromes (smaller facilities such as water airports, heliports, and airfields)	1,709
Flight training units	442
Air traffic services facilities	116

Source: Transport Canada Flight 2010—Strategic Plan for Civil Aviation; 2007 Clientele Database.

Exhibit 3.2 Reporting structure for Transport Canada Civil Aviation



3.6 Headquarters is responsible for developing the content, policy, and standards for oversight activities. The regional Civil Aviation branches, along with the National Aircraft Certification Branch and the National Operations Branch at headquarters, carry out the program. The National Operations Branch is responsible for some of the companies operating nationwide, such as Air Canada and WestJet. A total of 1,500 employees work in Transport Canada Civil Aviation at headquarters and in the five Transport Canada regions (Exhibit 3.3).

 Regional offices ■ National headquarters Yukon Northwest Nunavi. Pacific Region Prairies and Newfoundland Northern Region Saskatchewan Manitoba Vancouve Winnipeg Montreal New Brunswick Toronto

Exhibit 3.3 Transport Canada's regions

Source: Transport Canada

#### **Current priority**

- 3.7 The current priority of Transport Canada Civil Aviation is to introduce a new way of managing oversight of civil aviation, based on the implementation of safety management systems (SMS) by aviation companies (Exhibit 3.4). The International Civil Aviation Organization (ICAO) has stated that by 2009, member countries must establish a safety program requiring aviation companies to implement safety management systems acceptable to the country's regulating authority.
- **3.8** According to ICAO, the rapidly expanding aviation industry and limited resources of oversight authorities make it increasingly difficult to sustain the existing approach to the management of safety.

ICAO sees a need to complement the current regulatory approach with safety management systems: "SMS presents the international aviation community with a principled, data-driven approach to determining priorities and allocating the resources required to address safety concerns that hold the greatest risk potential, and towards activities likely to produce the biggest return on resources invested."

Transport Canada has already introduced new SMS regulations 3.9 affecting some sectors of the aviation industry. With this new approach, the Department's primary involvement with industry will be at the level of each company's management systems. The oversight role will change from one focused solely on conducting inspections and audits to one of assessing the processes that a company has in place for ensuring safety—although direct inspections and audits may still be carried out if necessary. For example, instead of conducting an inspection to assess whether the tires in the aircraft landing gear are sufficiently inflated,

#### Exhibit 3.4 Transport Canada is adopting a safety management systems approach

The concept of safety management systems originated in the early 1980s in the chemical industry. The concept emphasized the need to look at an overall process or system, including the combination of human, organizational, technical, and environmental factors, rather than individual occurrences. The goal was for organizations to move from a reactive to a proactive approach by identifying hazards, analyzing associated risks, and taking appropriate measures before damage could occur. Over the years, the concept spread to other industries, including transportation.

Transport Canada has accountability for safety oversight and is adopting a safety management systems approach for sea, rail, and air transportation. The Department has required Canadian railway companies to have safety management systems in place since 2001. Marine Transportation Safety Management Systems have been in place for Canadian international carriers since 1998.

Civil aviation companies in Canada are now putting in place safety management systems or will soon need to do so. Each company must name an accountable executive to provide leadership and foster a safety culture, and then develop safety policies, procedures, training, and quality assurance mechanisms. For companies developing and implementing safety management systems, Transport Canada has provided information and help in interpreting the regulatory requirements.

Role	Traditional approach	SMS approach
Inspector	Inspectors are regulatory compliance auditors.	Inspectors are system   evaluators.
Company	The company responds to regulatory requirements.	The company proactively manages risks.
Department	Transport Canada inspects aircraft, records, and personnel directly.	Transport Canada assesses whether companies have effective processes to ensure safety.

Transport Canada will assess whether a company has the systems in place to ensure that the tires are inflated, following up if necessary. The goal is to make companies more accountable for the management of risks. Transport Canada will still be accountable for safety oversight. The Department maintains that safety management systems will allow more thorough identification and resolution of potential safety problems, making the transportation system safer.

- 3.10 SMS-based oversight is expected to be fully in place once regulations for all sectors of the aviation industry are in effect, and all companies have been able to implement SMS (expected between 2011 and 2013). Until then, Transport Canada has the task of managing the transition, while continuing its oversight responsibilities.
- While making the transition to SMS-based oversight, Transport Canada has started two other major initiatives for the Civil Aviation program. The first is the implementation of an Integrated Management System (IMS) to coordinate and standardize the management processes, activities, and practices of the Civil Aviation program. A key part of IMS was a gap analysis of practices to identify opportunities for improvement. The second initiative is the reorganization of the Civil Aviation Directorate and regional branches, referred to as the National Organization Transition Implementation Project (NOTIP). The project examines how the organization will be structured to deliver the Civil Aviation program in the future, in accordance with the new Integrated Management System.

#### Focus of the audit

- The main focus of this audit was Transport Canada's management of the transition to SMS-based oversight of the first sectors to implement SMS—airline operators and associated aircraft maintenance companies. These two sectors comprise 74 companies, including large international and national carriers, such as Air Canada, WestJet, and Air Transat, as well as regional operators and maintenance companies.
- 3.13 We looked at Transport Canada's transition planning, its work to date with the companies implementing SMS, and its monitoring of compliance with regulations during the transition. We also examined the Department's approach to risk management, human resources planning and training, and performance measurement for safety oversight activities. Our audit was conducted in the midst of the transition. Lessons learned in the early stages can be applied to later implementation of SMS by other categories of air operators (for example,

air taxis) and other sectors of the industry (for example, aircraft manufacturers, airports, and air traffic control).

3.14 More details on the audit objective, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

# **Observations and Recommendations**

## Planning for the transition

3.15 In 1999, Transport Canada announced that it would pursue a new approach to oversight of civil aviation safety, based on safety management systems (SMS). New SMS regulations will have an impact on the Canadian aviation industry as well as on Transport Canada itself. For a transition of this scope, we expected the Department to have in place a project plan documenting risks and mitigating actions, expected costs and resource requirements, milestones, roles and responsibilities, and internal communications needs.

# Transport Canada is the first civil aviation authority to have regulations for safety management systems

3.16 Transport Canada is the first civil aviation authority in the world to put in place regulations requiring aviation companies to implement safety management systems. Given the lack of precedents in other countries for the new regulatory framework, the Department had to develop its own approach for SMS implementation.

## Planning was done for the transition but did not cover some key elements

- 3.17 Transport Canada developed a timetable that determined the order in which the various sectors of the aviation industry would be required to implement SMS. The Department also prepared several documents that explained the components of SMS and its impact on aviation companies. In addition, the Department conducted pilot projects with airlines and small operators to test how implementation would work. Based on these pilot projects, Transport Canada determined that a phased-in approach to implementation was needed.
- 3.18 The Department told each region to structure itself appropriately to undertake SMS-related activities and to appoint regional SMS coordinators to be responsible for coordinating these activities. A communications plan was developed, and senior executives visited each region to make presentations on the new approach.

- 3.19 However, the Department did not document risks, such as the impact of the transition process on oversight of air transportation safety, or prepare mitigating actions. It also did not forecast overall expected costs for the transition. Although a communications plan was prepared, the plan was not evaluated and adjusted regularly over the course of the transition. The Department did not explain how the day to-day work of inspectors would change as SMS-related activities were integrated with traditional oversight activities. It also did not explain the connection between the transition to SMS and the delegation to industry of checks of company pilots, an activity requiring specialized qualifications. Inspectors were told during their SMS training that the transition to SMS involved a shift from specialized and technically trained inspectors to systems auditors and analysts. In 2007, the Department found it necessary to clarify that it would still need inspectors with specialized skills.
- **3.20** Recommendation. For the introduction of safety management systems in other sectors of the aviation industry, Transport Canada should prepare a project plan that documents risks to the Department, mitigating actions, and expected costs, and provides a timetable for evaluating and adjusting communications efforts.

#### Transport Canada's response. The Department agrees.

The Department intends to enhance the existing safety management systems (SMS) transition plan to include an assessment of the risks and mitigating actions and the expected costs and resource requirements. The communications plan, which is currently an integral part of the existing SMS plan, will be improved with the addition of a timetable for evaluating and adjusting communications efforts.

## Implementation to date

- 3.21 Transport Canada is introducing safety management systems (SMS) by stages (Exhibit 3.5). Regulations have been in place since 31 May 2005 for SMS implementation in the sectors that include airline operators and the companies that perform maintenance on their aircraft. The 74 companies in these sectors have an exemption from the regulations until September 2008, allowing them time to develop and implement their own safety management systems. Companies that applied for an Air Operating certificate or Approved Maintenance Organization certificate on or after 31 May 2005 did not receive an exemption and must already have SMS in place.
- **3.22** For companies in the first sectors to implement SMS, Transport Canada developed a four-phase approach. Each phase involves putting in place some of the components required for

safety management systems within a set time frame. Transport Canada then reviews the components that the company has put in place in a process called an acceptance validation. The Department will only assess the effectiveness of each company's SMS after the four phases are complete. Exhibit 3.6 shows the phases of implementation for the first sectors.

Exhibit 3.5 The safety management systems approach is being implemented over several years

	Effective date of regulations	Industry sectors
Actual	May 2005 (with exemption until September 2008)	Airline operators and companies that perform maintenance on their aircraft
	January 2008 (with exemption until March 2011)	Principal airports and air traffic service providers
	January 2009 (regulations have already been published)	Other airports
Targeted	March 2009	Small operators (including air taxi and commuter operators) and companies that perform maintenance on their aircraft
	September 2009	Airplane and helicopter flight training units
	January 2010	Companies with delegation from Transport Canada to certify aircraft
	December 2010	Aircraft manufacturers, heliports, and water airports

Source: Transport Canada Civil Aviation

Exhibit 3.6 The implementation of safety management systems for airline operators and related maintenance companies is done in four phases

Phase	Components required	Status
1	Naming of an "accountable executive" to act on behalf of the organization	Complete for all companies under the exemption, to the satisfaction of Transport Canada
	<ul> <li>Documentation of gaps between the organization's existing systems and the SMS requirements</li> </ul>	
	SMS implementation project plan	
2	Safety management plan	Complete for all companies under the exemption, to the
	Documentation policies and processes	satisfaction of Transport Canada
	Reactive processes for safety oversight	
3	Proactive process for the identification of hazards	Transport Canada is reviewing submissions.
4	Training, quality assurance, and emergency preparedness	Companies are to submit documentation on these components by 30 September 2008.

Source: Transport Canada Civil Aviation and Office of the Auditor General of Canada

#### Validation procedures have been developed and are being followed

- 3.23 We examined the two phases of SMS implementation completed by September 2007. We expected Transport Canada to have developed appropriate procedures and processes for SMS implementation, and to have applied them consistently to aviation organizations.
- **3.24** We found that the Department had developed procedures and processes for its inspectors to carry out the SMS validation activities. The Department conducted an assessment of these activities and found that the majority of regional teams indicated that they required further direction to carry out validations. The assessment noted that instructions should include more information in some areas, particularly for planning and preparing for future assessments.
- 3.25 To assess whether procedures were followed, we examined 21 files documenting validation activities for phase 2 of SMS. The files included representation from all regions and various sizes of air operators and maintenance companies. Although there were minor deviations, we found that validation teams completed the activities according to established procedures, and most files had the required documentation. We noted that in some cases Transport Canada found deficiencies and followed up to ensure that these were corrected. The teams of inspectors were able to conclude that all of the 74 companies had in place the SMS processes required for phase 2.

## Efforts are being made to monitor consistency during validations

- **3.26** To monitor consistency in the application of procedures, SMS regional coordinators in some of the regions were present at all validation activities. In addition, after completing phase 1, managers from all of the regions met and produced a document on lessons learned.
- 3.27 At the end of phase 2, the Department developed a report noting that despite slight deviations by some inspectors, the SMS validation teams in the regions followed the procedures provided by headquarters to achieve their objectives. The phase 2 report contains recommendations for enhancing the effectiveness and efficiency of validations by improving procedures, processes, guidance, and training. We encourage the Department to develop an action plan to address these recommendations.

# Monitoring of compliance during the transition

3.28 At the end of the four phases of SMS implementation, Transport Canada anticipates that it will be able to assess the effectiveness of safety management systems implemented by companies. Until this can be done, we expected Transport Canada to have mechanisms in place for traditional oversight to monitor compliance with regulations during the transition.

#### Risk analysis methods vary in traditional oversight

- 3.29 The SMS validation activities that precede the assessments involve considerable effort and the on-site presence of inspectors at companies to assist in the transition. To free up resources for these activities, the Department has supported the shifting of resources from traditional audits and inspections to SMS-related activities. The Department has a Frequency of Inspection Policy Document that outlines in detail the required frequency of traditional oversight tasks. For example, the policy states that certain airline operators must undergo an audit every 6 to 36 months. This policy states that the frequency can be adjusted depending on available resources and on the basis of an assessment of risks. To determine the frequency of traditional oversight tasks during the transition, while SMS activities are also occurring, managers have been asked to use their judgment while referring to risk indicators described in the policy, such as a company's accident record.
- Each region, however, uses different risk management techniques and processes to assess risk. Managers do not always analyze all of the risk indicators listed in the Frequency of Inspection Policy Document and may use other indicators that are not listed. Methods range from formal to informal: Some regions have created their own risk indicator databases, some document the decisions made in the risk analysis process in detail, and others make decisions without documenting details, such as the rationale. The use of different indicators and methods increases the likelihood of reaching different conclusions for similar situations. In addition, differences in the level of documentation could make it more difficult for new inspectors to understand the rationale for decisions made by inspectors who have left the Department. Transport Canada has already identified the use of different risk analysis methods as a deficiency, and it is developing a national program with standard risk indicators to be used across the regions.

**3.31 Recommendation.** Transport Canada should put in place its national risk indicator program for civil aviation as soon as possible, in order to have a standardized method to assess risk for the allocation of resources. The Department should document all decisions made in the risk analysis process.

Transport Canada's response. The Department agrees.

The Department has already commenced work in this area. A working group was formed in May 2007 to review and develop a comprehensive set of risk indicators. The working group has completed its work and will present a final report in April 2008. A plan to implement its recommendations, which will also address this recommendation, will be developed by the end of the 2008–09 fiscal year for implementation in the 2009–10 fiscal year.

Transport Canada has not analyzed the impact of safety management systems on the frequency of traditional oversight activities

- 3.32 Transport Canada has not established objectives for the frequency of traditional oversight activities during the transition, including the extent to which traditional oversight activities can be adjusted. Because the frequency can be adjusted based on available resources and risk, it is unclear what combination of traditional oversight and validation activity is acceptable and why and how this may change as SMS is implemented.
- 3.33 Adding to this uncertainty is the lack of overall data on the frequency of traditional oversight activities. The regions report to headquarters on the extent to which they have achieved the target frequency for different tasks. For each task, headquarters looks at significant variances—generally, 25 percent above or below what is planned—and asks the regions to explain these on a case-by-case basis. However, the data is not aggregated to allow for a more comprehensive analysis. Department information systems cannot calculate the extent to which the planned frequency schedules have been met overall for the first sectors implementing SMS. This type of analysis will become even more important when the large group of small air operators and related maintenance organizations begin to implement SMS.
- 3.34 Recommendation. Transport Canada should establish a standard that defines an acceptable level of activity for oversight of the aviation industry, and it should specify how this will be measured during the transition to SMS and when the transition is complete. The Department should analyze the data to assess the extent to which the standard is achieved.

Transport Canada's response. The Department agrees. A standard has been developed for the oversight activities during the transition to SMS and will be available in early spring 2008.

To validate the effectiveness of the standard, the Department will conduct an analysis of the risk indicator data and information from other data sources to monitor operator compliance with the requirements.

#### Transport Canada has no national mechanism for monitoring consistency in oversight activities

- We noted that Transport Canada has no national mechanism for monitoring consistency in oversight activities or risk assessments. Only one region has such a mechanism: It reviews audit files to determine whether procedures were followed and sufficiently documented. Other regions should consider implementing similar practices.
- Without a national mechanism in place, Transport Canada cannot determine whether all traditional oversight activities are carried out consistently and according to procedures. To measure the level of consistency in its monitoring activities, the Department is developing a formal process as part of its Integrated Management System.
- Recommendation. Transport Canada should establish a national mechanism to provide the desired level of assurance that policies, procedures, and processes for civil aviation oversight activities, including the assessment of risks, are followed consistently across all regions.

Transport Canada's response. The Department agrees. The Department has developed a national quality assurance (QA) process for implementation beginning in the 2008-09 fiscal year. It includes policies, procedures, and processes for Civil Aviation oversight activities. A risk assessment QA module is under development and will be implemented in the 2009–10 fiscal year.

## **Human resources planning** and training

3.38 Civil aviation inspectors and engineers are given delegated authority from the Minister to provide safety oversight in accordance with Transport Canada's regulatory responsibility. The 890 inspectors and engineers are required to have specialized qualifications, such as a pilot's licence or an aircraft maintenance engineer licence. With the shift to SMS, they have to acquire additional skills to assess an organization's ability to detect hazards to safe operations and mitigate or eliminate them. Effective human resources planning and training are therefore critical for this initiative to succeed. We expected Transport

Canada to have a human resources plan for the Civil Aviation program that is integrated with its strategic plan, incorporates both current and future needs, and includes an action plan to meet these needs. As well, we expected Transport Canada to have a sufficient number of inspectors and engineers with the right skills and competencies, in the right place and at the right time, to carry out its mandate.

#### There is no integrated human resources plan for the Civil Aviation program

- 3.39 Transport Canada began a reorganization of the Civil Aviation program in 2005, called the National Organization Transition Implementation Project (NOTIP). The project was initiated to review the workforce required for Civil Aviation's future needs in light of SMS implementation, in accordance with the new Civil Aviation Integrated Management Standard. The reorganization, which will address the organization structure at headquarters and in each of the regions, is expected to be completed by December 2009.
- 3.40 Headquarters and the regions each have their own human resources plans. However, these vary in the extent to which they are aligned with Transport Canada Civil Aviation's strategic plan. The plans do not address issues that cut across regions, such as the potential requirement to move staff from one region to another on a temporary basis to meet workload requirements. Transport Canada currently has no national integrated human resources plan for the Civil Aviation program that identifies its needs for SMS implementation, including the overall resources and competencies required, both during the transition and when it is complete. It is recognized that as the first national regulatory authority to introduce SMS regulations for aviation, Transport Canada has no precedents to follow; however, good human resources planning requires that resources be estimated for any new initiative.
- 3.41 Human resources planning is particularly critical given that the number of employees has decreased by 8 percent in the past five years (Exhibit 3.7). Departing employees take with them the highly specialized knowledge, skills, and abilities they gained on the job. Hiring, however, has not increased. Some regions submitted estimates showing increased resource requirements when small air operators and related maintenance organizations begin implementing SMS. To address these needs, some regions have put in place measures to temporarily increase staffing levels—for example, retaining retirees on contract or backfilling positions soon to be vacated.

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Exhibit 3.7 The number of inspectors and engineers is decreasing

Source: Transport Canada Civil Aviation

- 3.42 Transport Canada needs to determine requirements for the short and long term for Civil Aviation as a whole. Since NOTIP is not expected to be completed until December 2009, the delay in hiring presents a risk that Transport Canada will not be able to recruit the right mix of skills when needed. Staffing times and initial mandatory training will increase the time required to meet workforce needs.
- 3.43 Recommendation. Transport Canada should put in place a national human resources plan for Civil Aviation as soon as possible. This plan should be aligned with the strategic plan, specify the required number of inspectors and engineers and their competencies, and include a recruitment strategy to meet these needs.

Transport Canada's response. The Department agrees. Although regional and headquarters human resources plans already exist, the development of a national human resources plan will depend on the Department's revised Program Activity Architecture (PAA). As part of the implementation of the revised PAA, scheduled to begin in the 2009–10 fiscal year, a national human resources plan will be developed. This plan will be aligned with the strategic plan and specify the required number of inspectors and engineers and their competencies, and also include a recruitment strategy to meet these needs.

#### Some gaps exist in the training of inspectors and engineers

3.44 The Department provided an initial SMS course to most inspectors and engineers in 2004 and 2005. This course covered the history of SMS, document management, safety oversight, and the use of the SMS assessment guide. Many took the training well before they could apply it. This limited the course's effectiveness; however, briefing

sessions were also provided at a later date. No regular recurrent SMS training has been planned. Transport Canada should ensure that ongoing training is provided to keep inspectors and engineers up-to-date on evolving procedures and practices for introducing SMS-based oversight into companies.

- 3.45 As part of the reorganization of the Civil Aviation program, Transport Canada will be revising competency profiles to add new competencies. Since these have not yet been defined, no training strategy has been developed to address new requirements. Other training needs have emerged, such as interviewing skills. The Department is developing courses to address these needs, but until human resources requirements are known, it will be difficult to develop a comprehensive training strategy.
- **3.46** Recommendation. Transport Canada should develop a training strategy that is aligned with the human resources plan to be developed for Civil Aviation. The strategy should address required competencies, training needs, courses to meet those needs, and a schedule for recurrent training.

**Transport Canada's response.** The Department agrees. Competencies for the non-SMS regulatory framework are identified based on the requirements to exercise individual ministerial delegations. A training strategy is in place including initial and recurrent courses.

Employees implementing the SMS regulatory framework are trained and kept current through various mechanisms as implementation continues. Given that no other regulatory authority has implemented an SMS regulatory framework, data was not available prior to the beginning of the first phase of implementation of the SMS framework to permit full identification and integration of training and competency needs. Transport Canada is continuing to monitor its training activities and will revise its strategy to address its future needs. The strategy will be integrated with the national human resources plan discussed in recommendation 3.43 to support the SMS regulatory framework at its end state.

3.47 All inspectors and engineers must undergo initial training as well as recurrent training in risk management training and aviation enforcement training. Both headquarters and the regions have systems for tracking training, but no one system contains an individual's complete training information, or all training information for all inspectors and engineers. We noted that about 15 percent of inspectors and engineers had not completed the required recurrent training;

moreover, we noted that another 15 percent had not completed their initial training. These staff, therefore, do not meet the requirements for exercising all their job responsibilities, thus contravening the Department's own training policies. Headquarters is not notified of this training deficiency and does not track action to restrict the authority of individuals who do not meet the job requirements. Headquarters should be informed of the need for any restrictions on staff in carrying out the delegated authority of the Minister.

**3.48 Recommendation.** Transport Canada should ensure that training requirements are met for all civil aviation inspectors and engineers and that action is taken to restrict authority when required.

Transport Canada's response. The Department agrees. Training requirements are well documented, and the training status of every employee respecting their delegations of authority is documented. This recommendation will be addressed through the Quality Assurance process referenced in recommendation 3.37.

#### Performance measurement

3.49 The Treasury Board of Canada Secretariat requires departments to develop performance indicators for all expected outcomes in their performance measurement frameworks, and to ensure that the indicators measure both short- and long-term performance against targets by a specified date. The International Civil Aviation Organization (ICAO) recommends the use of safety indicators that are easy to measure and that are linked to the major components of the safety program. We expected Transport Canada to have an effective performance measurement framework for its civil aviation oversight activities, including a set of indicators for measuring the impact of these activities. We also expected the information gained from using the performance indicators to guide management's decision making.

#### Performance measures for the short and medium term are lacking

3.50 The strategic plan of Transport Canada Civil Aviation sets out two long-term objectives: "continued improvement on the high level of aviation safety in Canada" and "a high level of public confidence in [the country's] Civil Aviation Program." To measure achievement of these objectives, Transport Canada looks at accident rates and findings from surveys on public confidence. According to the Transportation Safety Board of Canada, an independent body that investigates accidents, the Canadian aviation accident rate (calculated as the number of accidents divided by Transport Canada's estimate of hours flown) has been decreasing over the past 10 years. Transport Canada's public opinion

surveys found that the public confidence rating for flight safety in Canada ranged between 96 and 98 percent over the period from 2005 to 2007. The surveys were conducted by private suppliers, using telephone interviews with a random respondent sample of 2,516 in 2005, 2,507 in 2006, and 1,016 in 2007.

- 3.51 However, the Department does not have any short- and medium-term performance indicators to measure the impact of its civil aviation oversight activities. Leading indicators—those that measure conditions and events that precede accidents—are required. These indicators could signal a need for closer attention or action in a particular area. Some work was done on developing these indicators, but this work was set aside while the Department changed its approach to performance measurement. The Department needs short- and medium-term performance indicators to assess the extent to which its civil aviation programs and initiatives, including implementation of SMS, are contributing to achieving the Department's long-term objectives.
- Several possibilities exist for developing leading indicators. ICAO stated that the acceptable level of safety shall be established by the member country's oversight authority, and it has provided examples of indicators and associated targets, such as major aircraft defect incidents, runway incursions, or airspace incidents. Transport Canada stated that it plans to measure performance based on the scores that companies achieve in their initial and subsequent SMS assessments. Other indicators and targets could be developed based on elements that are examined during more frequent oversight activities. Compliance with regulations could also be tracked. Transport Canada acknowledged that it must still address the challenge of tracking and monitoring progress in safety management.
- 3.53 Recommendation. Transport Canada should develop a set of quantitative and qualitative short- and medium-term performance indicators to assess the extent to which its civil aviation regulatory programs and initiatives, including implementation of SMS, contribute to achieving its long-term objectives.

Transport Canada's response. The Department agrees. The Department is currently revising its Program Activity Architecture (PAA). As part of this process, the Department will be developing performance indicators to assess the Civil Aviation regulatory programs and initiatives.

Through this restructuring process, the new PAA structure, including targets, is required to be in place for the 2009-10 fiscal year.

Databases and systems do not provide an integrated view to facilitate performance measurement

- 3.54 Transport Canada has noted that data, databases, and trend analysis take on increased importance for companies implementing SMS. This is equally true for the Department itself, as it will have less day-to-day involvement at companies and will increasingly need to analyze trends to assess risk.
- 3.55 Transport Canada has several databases and systems that contain information related to aviation safety. However, these databases and systems do not provide an integrated view of the safety profile of an aviation company or industry sector. While data can be pulled together to create such a profile, several sources must be consulted. Integrated profiles would help in determining which companies should receive closer oversight. Without easily accessible safety profiles, inspectors need to rely on several sources of data as well as their own experience. A high rate of departures means this knowledge may be lost. The Department has acknowledged that there is a gap in its management of databases and systems, resulting in duplication and underuse in some cases. Integration of the various databases would help to establish profiles of companies and industry sectors and allow for easier analysis.
- **3.56** Recommendation. Transport Canada should put in place a means to capture all information relevant to oversight of civil aviation safety in an integrated manner. This would allow the Department to develop and track safety profiles for aviation companies and industry sectors and to assess the relative level of risk.

**Transport Canada's response.** The Department agrees. Safety data is currently available in a variety of databases. Work is ongoing to identify the best application for integrating and analyzing the data available. A capital project was initiated for the purpose of capturing the various aviation intelligence in an integrated fashion.

# **Conclusion**

3.57 Transport Canada is the first national regulatory authority in the world to put in place regulations requiring aviation companies to introduce safety management systems (SMS). The Department developed its own approach to implementation and conducted pilot projects with airlines and small operators. It developed appropriate procedures and processes for SMS implementation, and made efforts to apply them consistently. The first two phases of the four-phase

approach for SMS implementation in airline operators and associated aircraft maintenance companies are now complete.

- 3.58 Despite these accomplishments, we found that Transport Canada's management of the transition to the new approach has had several weaknesses. In planning for the transition, the Department did not document risks or suggest mitigating actions, and it did not forecast overall expected costs for the transition. It also had no mechanisms in place to evaluate the impact of SMS activities on the frequency of traditional oversight activities. The Department has not clarified what combination of traditional oversight and SMS-related activity is acceptable as it proceeds through the transition.
- 3.59 In addition, the Department has not yet identified human resource requirements for Civil Aviation during the transition and once it is complete, or determined how these requirements will be met. There is no integrated human resources plan for the entire Civil Aviation program that addresses these requirements.
- **3.60** Finally, the performance measurement framework for Civil Aviation does not contain short- or medium-term indicators for measuring performance. These indicators could be used to signal a need for greater attention or action in a particular area.
- 3.61 The Department was unable to demonstrate to us that it was managing these areas satisfactorily. It is important that Transport Canada address these weaknesses for the transition in the first 74 companies and in the remaining sectors of the industry—comprising more than 2,000 companies—to be successful.

# **About the Audit**

#### **Objective**

The objective of this audit was to determine the extent to which Transport Canada is effectively managing the transition to a safety oversight approach based on safety management systems (SMS).

#### Scope and approach

This audit focused on Transport Canada's Civil Aviation Directorate at headquarters and the Civil Aviation branches in the Department's five regions. We examined their planning for the transition to SMS and looked at SMS implementation to date for two sectors of the aviation industry: airline operators and companies that perform maintenance on their aircraft. We looked at ongoing oversight during the SMS transition period for these sectors, and we examined risk management techniques and processes used in decisions regarding oversight. Finally, we examined human resources planning and training, as well as performance measurement strategies for safety oversight activities.

The audit did not deal with oversight of other sectors of the aviation industry, such as aircraft manufacturers, airports, and air traffic control. We did not examine the level of air transportation safety in Canada. We also did not examine security—that is, protection from deliberate acts that could cause damage.

Our approach involved analyzing internal documentation and processes. We carried out file reviews at headquarters and regional offices. We conducted interviews with management and employees at headquarters and regional offices, and with several companies that are now implementing SMS. We also observed Transport Canada inspectors conducting oversight activities—both SMS and traditional—at aviation companies.

#### Criteria

Our audit was based on the following criteria:

- Transport Canada should have in place a project plan that describes the transition to safety
  management systems, documenting risks and mitigating actions, expected costs and resource
  requirements, milestones, roles and responsibilities, and internal communications needs.
  (Source: Treasury Board of Canada Secretariat Project Management Policy)
- The Department should develop appropriate procedures and processes for SMS implementation and should apply them consistently to aviation organizations. (Source: Transport Canada Cívil Aviation Directive 31—Safety Management Systems, and Transport Canada Civil Aviation Acceptance Procedures for Phase 2 of the SMS Regulatory Exemption)
- The Department should have safety oversight mechanisms in place during the transition to SMS to monitor compliance with regulations. (Source: International Civil Aviation Organization Safety Management Manual, 2006)

- The Department should apply appropriate risk management techniques and processes consistently in its decision making and should document decisions. (Source: Transport Canada Civil Aviation Directive 30—Risk Management and Decision-Making)
- The Department should have a sufficient number of inspectors with the right skills and competencies, in the right place at the right time, to carry out its mandate. (Source: Canadian Public Service Agency)
- The Department should have a human resources plan for the Civil Aviation program that is integrated with its strategic plan, incorporates both current and future human resources needs, and includes an action plan to meet those needs. (Source: Canadian Public Service Agency Integrated HR and Business Planning Toolkit)
- The Department should have an effective performance measurement framework for its civil aviation oversight activities, including a set of indicators for measuring the impact of these activities. (Source: Transport Canada Civil Aviation Integrated Management System Standard)

#### **Audit work completed**

Audit work for this chapter was substantially completed on 30 November 2007.

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# **Appendix** List of recommendations

The following is a list of recommendations found in Chapter 3. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

#### Recommendation Response Planning for the transition For the introduction of safety The Department agrees. The Department intends to enhance management systems in other sectors of the existing safety management systems (SMS) transition plan to the aviation industry, Transport Canada include an assessment of the risks and mitigating actions and the should prepare a project plan that expected costs and resource requirements. The communications plan, which is currently an integral part of the existing SMS documents risks to the Department, mitigating actions, and expected costs, plan, will be improved with the addition of a timetable and provides a timetable for evaluating for evaluating and adjusting communications efforts. and adjusting communications efforts. (3.15 - 3.19)

#### Monitoring of compliance during the transition

- 3.31 Transport Canada should put in place its national risk indicator program for civil aviation as soon as possible, in order to have a standardized method to assess risk for the allocation of resources. The Department should document all decisions made in the risk analysis process. (3.28–3.30)
- 3.34 Transport Canada should establish a standard that defines an acceptable level of activity for oversight of the aviation industry, and it should specify how this will be measured during the transition to SMS and when the transition is complete. The Department should analyze the data to assess the extent to which the standard is achieved. (3.32–3.33)

The Department agrees. The Department has already commenced work in this area. A working group was formed in May 2007 to review and develop a comprehensive set of risk indicators. The working group has completed its work and will present a final report in April 2008. A plan to implement its recommendations, which will also address this recommendation, will be developed by the end of the 2008–09 fiscal year for implementation in the 2009–10 fiscal year.

The Department agrees. A standard has been developed for the oversight activities during the transition to SMS and will be available in early spring 2008.

To validate the effectiveness of the standard, the Department will conduct an analysis of the risk indicator data and information from other data sources to monitor operator compliance with the requirements.

#### Recommendation

**3.37** Transport Canada should establish a national mechanism to provide the desired level of assurance that policies, procedures, and processes for civil aviation oversight activities, including the assessment of risks, are followed consistently across all regions. **(3.35–3.36)** 

#### Response

The Department agrees. The Department has developed a national quality assurance (QA) process for implementation beginning in the 2008–09 fiscal year. It includes policies, procedures, and processes for Civil Aviation oversight activities. A risk assessment QA module is under development and will be implemented in the 2009–10 fiscal year.

#### Human resources planning and training

3.43 Transport Canada should put in place a national human resources plan for Civil Aviation as soon as possible. This plan should be aligned with the strategic plan, specify the required number of inspectors and engineers and their competencies, and include a recruitment strategy to meet these needs. (3.38–3.42)

3.46 Transport Canada should develop a training strategy that is aligned with the human resources plan to be developed for Civil Aviation. The strategy should address required competencies, training needs, courses to meet those needs, and a schedule for recurrent training. (3.44–3.45)

The Department agrees. Although regional and headquarters human resources plans already exist, the development of a national human resources plan will depend on the Department's revised Program Activity Architecture (PAA). As part of the implementation of the revised PAA, scheduled to begin in the 2009–10 fiscal year, a national human resources plan will be developed. This plan will be aligned with the strategic plan and specify the required number of inspectors and engineers and their competencies, and also include a recruitment strategy to meet these needs.

The Department agrees. Competencies for the non-SMS regulatory framework are identified based on the requirements to exercise individual ministerial delegations. A training strategy is in place including initial and recurrent courses.

Employees implementing the SMS regulatory framework are trained and kept current through various mechanisms as implementation continues. Given that no other regulatory authority has implemented an SMS regulatory framework, data was not available prior to the beginning of the first phase of implementation of the SMS framework to permit full identification and integration of training and competency needs. Transport Canada is continuing to monitor its training activities and will revise its strategy to address its future needs. The strategy will be integrated with the national human resources plan discussed in recommendation 3.43 to support the SMS regulatory framework at its end state.

Recommendation	Response
3.48 Transport Canada should ensure that training requirements are met for all civil aviation inspectors and engineers and that action is taken to restrict authority when required.  (3.47)	The Department agrees. Training requirements are well documented, and the training status of every employee respecting their delegations of authority is documented. This recommendation will be addressed through the Quality Assurance process referenced in recommendation 3.37.

#### Performance measurement

3.53 Transport Canada should develop a set of quantitative and qualitative short- and medium-term performance indicators to assess the extent to which its civil aviation regulatory programs and initiatives, including implementation of SMS, contribute to achieving its long-term objectives. (3.49–3.52)

The Department agrees. The Department is currently revising its Program Activity Architecture (PAA). As part of this process, the Department will be developing performance indicators to assess the Civil Aviation regulatory programs and initiatives.

Through this restructuring process, the new PAA structure, including targets, is required to be in place for the 2009–10 fiscal year.

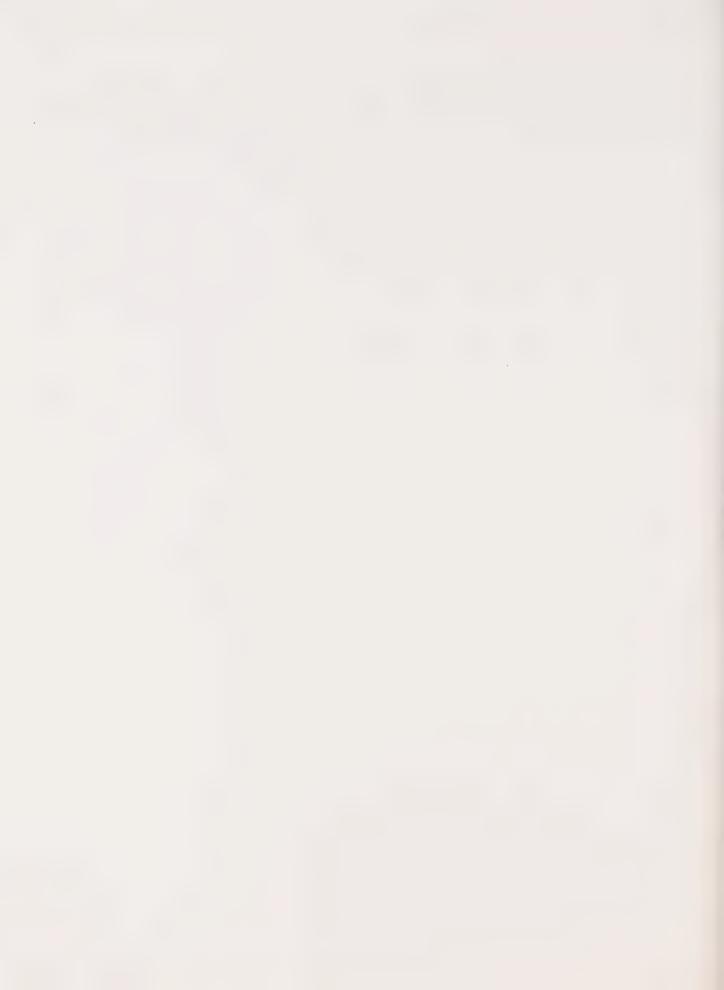
3.56 Transport Canada should put in place a means to capture all information relevant to oversight of civil aviation safety in an integrated manner. This would allow the Department to develop and track safety profiles for aviation companies and industry sectors and to assess the relative level of risk. (3.54–3.55)

The Department agrees. Safety data is currently available in a variety of databases. Work is ongoing to identify the best application for integrating and analyzing the data available. A capital project was initiated for the purpose of capturing the various aviation intelligence in an integrated fashion.

# Report of the Auditor General of Canada to the House of Commons—May 2008

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Report of the
Auditor General
of Canada
to the House of Commons

MAY

Chapter 4
First Nations Child and Family Services Program—
Indian and Northern Affairs Canada



Office of the Auditor General of Canada



# 2008



Report of the

# Auditor General of Canada

to the House of Commons

MAY

Chapter 4

First Nations Child and Family Services Program—Indian and Northern Affairs Canada





The May 2008 Report of the Auditor General of Canada comprises A Message from the Auditor General of Canada, Main Points—Chapters 1 to 8, and eight chapters. The main table of contents for the Report is found at the end of this publication.

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# Chapter

4

First Nations Child and Family Services Program

Indian and Northern Affairs Canada

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# First Nations Child and Family Services Program Indian and Northern Affairs Canada

## Foreword -

Children are among the most vulnerable people in society. All provinces in Canada have child welfare legislation in place to protect children from abuse and neglect and to help families overcome their problems so that children can grow up in a safe home environment. Where this is not possible, the goal is to find a safe, permanent home for the child.

The Auditors General of Canada and British Columbia are issuing separate audit reports to their respective legislatures on the management of child welfare services, including protection, for Aboriginal and First Nations children and families. The two audits were performed concurrently to present a broader perspective on child welfare services in British Columbia. Our offices shared methodologies and met jointly with some Aboriginal and First Nations agencies and other organizations.

The Auditor General of Canada looked at the First Nations Child and Family Services Program of Indian and Northern Affairs Canada (INAC) not only in British Columbia, but also nationwide. The audit covered primarily the management structure, the processes, and the federal resources used to implement the federal policy on First Nations child and family services on reserves. INAC funds the operating and administration costs of child welfare services provided to children and families ordinarily resident on reserves, as well as the costs related to children brought into care.

The Auditor General of British Columbia assessed whether the province's Ministry of Children and Family Development has the program design, resourcing, management, and accountability reporting to deliver effective, culturally appropriate services to Aboriginal children and families. The Ministry delivers child welfare services through both mainstream and Aboriginal service teams, as well as through Aboriginal and First Nations agencies that provide the services—either fully or in partnership with the Ministry. The Ministry is also responsible for ensuring that child welfare services meet the requirements set out in provincial legislation.

The federal and BC governments share similar principles in their policies for delivering child welfare services, both on and off reserves. Children and their families are to have equitable access to comparable services that are effective in meeting their needs. Where Aboriginal children, including First Nations children, are concerned, the services are to be culturally appropriate. In addition, both governments support efforts to have Aboriginal and First Nations agencies deliver the services.

#### Outcomes for children

Nationally, INAC data show that about 5 percent of the First Nations children living on reserves are in care; the Auditor General estimates that this proportion is almost eight times that of children in care residing off reserves.

Studies indicate that in British Columbia, an Aboriginal child is about six times more likely to be taken into care than a non-Aboriginal child. Of all BC children who are in care, 51 percent are Aboriginal—yet Aboriginal people represent only about 8 percent of BC's population.

Neither the federal nor the BC government knows enough about the outcomes. What happens to these children who receive child welfare services? Are they better off? Our legislatures and Aboriginal and First Nations communities need to know if the services being provided make a difference. More and better information on outcomes is critical to measure the impact of services and to change or improve them where necessary.

### **Funding practices**

Neither government takes policy requirements sufficiently into account when establishing levels of funding for child welfare services. Under federal and provincial policies, Aboriginal children, including First Nations children, should have equitable access to a level and quality of services comparable with those provided to other children. Funding for the services needs to match the requirements of the policies and also support the delivery of services that are culturally appropriate—which is known to take more time and resources. Current funding practices do not lead to equitable funding among Aboriginal and First Nations communities.

#### **Need for improvements**

Although access to good child welfare services alone cannot resolve some of the problems faced by Aboriginal and First Nations children and families, whether on or off reserves, the services are essential to protect these children from abuse or neglect. The overrepresentation of Aboriginal and First Nations children in care—and the indications that outcomes are poor—call for all parties involved in the child welfare system to find better ways of meeting these children's needs.

Our audits have identified a number of other problems that also remain to be resolved, in the areas of staffing, capacity development, and monitoring. We urge our respective governments, working together and with Aboriginal and First Nations organizations, to take prompt action to carry out our recommendations.

Sheila Frases

Sheila Fraser, FCA Auditor General of Canada John Doyle, MBA, CA Auditor General of British Columbia





# First Nations Child and Family Services Program

# Indian and Northern Affairs Canada

## **Main Points**

What we examined

Under federal government policy, Indian and Northern Affairs Canada (INAC) is responsible for supporting the provision of child welfare services for on-reserve First Nations children and families. The Department provides funding to First Nations, their child welfare agencies, and provinces to cover the operating costs of child welfare services on reserves and the costs related to children brought into care. These services are expected to meet provincial legislation and standards, be reasonably comparable with those provided off reserves to children in similar circumstances, and be appropriate to the culture of First Nations people. The policy also confirms the federal government's view that provinces have jurisdiction over the welfare of all children, including those living on reserves.

The audit examined the First Nations Child and Family Services Program of INAC. It also included, where relevant, the support available from other INAC programs and programs of other federal departments. The audit covered primarily the management structure and processes and the resources used to implement the government policy on First Nations child and family services on reserves. We interviewed officials of INAC and other departments and reviewed relevant files and documents. We also sought the views of First Nations and First Nations child welfare agencies and met with some provincial officials.

Why it's important

Children are among the most vulnerable people in society. Some of the most vulnerable children in Canada are First Nations children. Information collected by INAC shows that the number of on-reserve First Nations children in care has grown considerably over the last 10 years, as have program expenditures. At the end of March 2007, about 8,300 First Nations children ordinarily resident on reserves were in care. This represents a little over 5 percent of all children residing on reserves (almost eight times the proportion of children residing off reserves). INAC spent \$270 million in 2007 to directly support on-reserve children placed in care and another \$180 million for the operations, including prevention, of child welfare services for First Nations.

#### What we found

- The funding INAC provides to First Nations child welfare agencies for operating child welfare services is not based on the actual cost of delivering those services. It is based on a funding formula that the Department applies nationwide. The formula dates from 1988. It has not been changed to reflect variations in legislation and in child welfare services from province to province, or the actual number of children in care. The use of the formula has led to inequities. Under a new formula the Department has developed to take into account current legislation in Alberta, funding to First Nations agencies in that province for the operations and prevention components of child welfare services will have increased by 74 percent when the formula is fully implemented in 2010.
- The Department has not defined key policy requirements
  related to comparability and cultural appropriateness of services.
  In addition, it has insufficient assurance that the services provided
  by First Nations agencies to children on reserves are meeting
  provincial legislation and standards.
- INAC has not identified and collected the kind of information it would need to determine whether the program that supports child welfare services on reserves is achieving positive outcomes for children. The information the Department collects is mostly for program budgeting purposes.

The Department has responded. Indian and Northern Affairs Canada agrees with all recommendations. In its response to each recommendation, the Department has indicated the action it has taken or will take.

## Introduction

- 4.1 Children are among the most vulnerable people in society. In Canada, child welfare is a provincial responsibility. According to the Centre of Excellence for Child Welfare, "child welfare" refers to a group of services designed to promote the well-being of children by ensuring their safety, and to support families in successfully caring for rheir children.
- All provinces have child welfare statutes in place. Although these statutes have similarities, they vary in how a child in need of protection is defined, the age of children to be protected, investigation procedures, and timelines.
- For First Nations children and families living on reserves, access to child welfare services within their communities is a recent undertaking. There is no explicit reference to child welfare on reserves in either the Constitution Act, 1867 or the Indian Act. As a result of the application of section 88 of the Indian Act (extending to First Nations people provincial laws of general application), provincial legislation regarding child welfare is deemed to apply on reserves.

## **Background on First Nations child welfare services**

- Before the 1950s, federal officials intervened in extreme cases if a child living on reserve was abused or neglected; however, their intervention was not based in law. From the 1950s on, provinces began to deliver child welfare services on reserves.
- In the 1970s, First Nations began to express dissatisfaction with the way provinces delivered child welfare services: many First Nations children were adopted out of their communities, some even outside Canada, severing the children's ties to their communities and culture. To remedy these problems, First Nations demanded greater control and jurisdiction over child welfare. Some First Nations developed their own child welfare agencies. The development of First Nations agencies funded by Indian and Northern Affairs Canada (INAC) continued until the mid-1980s, when the Department put a moratorium on the creation of new agencies until the adoption of a federal child welfare policy for First Nations children.
- In 1990, a First Nations child welfare policy was approved by the federal government. This policy promoted the development of culturally appropriate child and family services controlled by First Nations for the benefit of on-reserve children and their families.

Under the policy, a First Nations agency must obtain its mandate from the province and provide child welfare services in accordance with provincial legislation and standards. The policy also recognizes the need to ensure that the services delivered on reserves are culturally appropriate and reasonably comparable with those delivered off reserves in similar circumstances. Over the years, the policy has been confirmed through several government and Treasury Board decisions.

- Today, most provinces provide delegated authority for child 4.7 welfare services on reserves to local First Nations agencies. These agencies generally are responsible for receiving and investigating reports of possible child abuse or neglect and for taking appropriate actions to ensure the safety and protection of children and promote their well-being. INAC considers that it is the responsibility of each provincial director of child welfare to ensure that the delegated authority is appropriately exercised and to take remedial action when deemed necessary.
- First Nations Child and Family Services Program. INAC created the First Nations Child and Family Services Program in 1990, based on the new First Nations child welfare policy. Under the program, INAC provides funding to First Nations, their organizations, and provinces to cover the operating and administrative costs of the child welfare services provided to children and families living on reserves, as well as the costs related to First Nations children placed in care. In addition, a single First Nation or a group of First Nations can obtain funding to prepare for delivering child welfare services. According to INAC, 108 First Nations agencies across the country are now providing at least a portion of child welfare services to about 442 of the 606 First Nations covered by the program. Yukon and provincial agencies serve the rest.
- 4.9 In 2007, from over \$5 billion appropriated by Parliament for transfers and services to First Nations, INAC spent \$450 million on this program (\$270 million on direct support for First Nations children in care and another \$180 million on the operations and administration of child welfare services provided to First Nations). INAC does not track separately what it spends on managing the program.

#### Child welfare on reserves

Studies have linked the difficulties faced by many Aboriginal families to historical experiences and poor socio-economic conditions. The Report of the Royal Commission on Aboriginal Peoples linked the residential school system to the disruption of Aboriginal families.

Data from the 2003 Canadian Incidence Study of Reported Child Abuse and Neglect link poverty, inadequate housing, and caregiver substance misuse on many reserves to the higher substantiated incidence of child neglect occurring on reserves compared to non-Aboriginal children off reserves. Given these linkages, the solution to some of the problems faced by on-reserve children and families do not depend entirely on the availability and quality of child welfare services. Exhibit 4.1 summarizes some of the current challenges that face First Nations children and families as presented to us at meetings with First Nations.

#### Exhibit 4.1 Challenges facing First Nations children and families

Socio-economic conditions. Many First Nations face difficult socio-economic conditions. Some communities are in crisis. According to First Nations, these conditions present different challenges for First Nations than for mainstream society, but are not taken into account in the child welfare system. There is also a need to address the underlying causes of child welfare cases.

**Jurisdiction.** First Nations maintain that they have never surrendered their right to care for their children. These rights extend to all members of a First Nation, whether they live on or off reserves.

**Legislation.** First Nations consider that they have limited input into provincial child welfare legislation. Some provincial standards can be obstacles to providing culturally appropriate child welfare services, which can result in the placement of First Nations children out of their communities.

**Program design.** As currently designed, the INAC program does not have the flexibility to move funds between operations of an agency and services to children in care. First Nations consider that, at times, this forces agencies to take children in care in order to access funds to provide the required services.

Access to and availability of services. First Nations state that funding allocated to provide child welfare services is not adequate. Travel needs alone require a lot of resources as specialized services are located in large urban centres. They also face difficulties in attracting workers, partly because INAC funding is not sufficient to pay competitive salaries and benefits. The situation is worse in remote and isolated communities.

**Emerging issues.** Some First Nations note that the number of First Nations children born addicted to drugs is increasing. This causes strains on child welfare resources as these children require special medical or social services that are not always covered by existing funding.

Source: Interviews with First Nations and documents provided by them (unaudited)

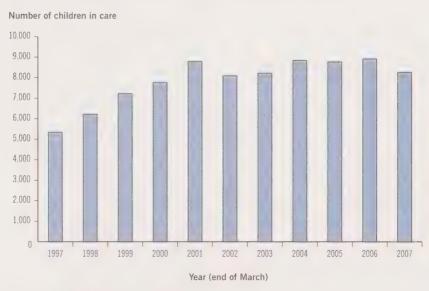
**4.11** An analysis funded by INAC, contained in the *Wen:de Report*, found significant differences between Aboriginal and non-Aboriginal children who come into contact with the child welfare system. For example, Aboriginal children are more likely to be reported for neglect than non-Aboriginal children, but they are not over-represented among reports of child abuse. Additionally, Aboriginal children are twice as likely to be investigated for possible abuse or neglect

as non-Aboriginal children. Neglect of Aboriginal children was also confirmed 2.5 times more often. Further, Aboriginal children were more likely to require ongoing services and to be placed in care.

4.12 As shown in Exhibit 4.2, between 1997 and 2001 there was a rapid increase in the number of on-reserve children placed in care. Over this period, the total number of children in care increased by 65 percent, from 5,340 to 8,791 children. This number has remained around the same level since then. At the end of March 2007, there were about 8,300 on-reserve children in care, a little over 5 percent of all children aged from 0 to 18 living on reserves. We estimate that this proportion is almost eight times that of children in care living off reserves.

4.13 Little is known about the outcomes of children placed in care, whether they are Aboriginal or non-Aboriginal. The limited information available regarding children in care shows that they appear to have poor outcomes—a recent British Columbia report noted that the outcomes related to children taken into care in that province were poor. A child who has been in care is less likely to complete high school than a child who has never been in care. For Aboriginal children in care, education results are poorer than for non-Aboriginal children in care.

Exhibit 4.2 The number of on-reserve children placed in care remains high



Source: Indian and Northern Affairs Canada

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#### Focus of the audit

- 4.14 In this audit, we examined whether INAC is fulfilling its responsibilities, under federal policy, to support child welfare services to on-reserve children and families that are culturally appropriate and reasonably comparable with provincial services available off reserves in similar circumstances. We also looked at how INAC determines whether these services meet provincial legislation and standards. We examined how INAC funds the delivery of child welfare services under its First Nations Child and Family Services Program. We also looked at whether accountability for providing the required services is clearly established. Finally, we examined how the Department determines whether the program is achieving expected results.
- **4.15** We interviewed officials of INAC at the Department's headquarters and in regional offices in British Columbia, Alberta, Manitoba, Ontario, and Quebec, and reviewed relevant files and documents. We sought the views of First Nations and their child welfare agencies through visits and consultations. We also met with some provincial officials and organizations, and child welfare specialists.
- **4.16** More details on the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

# **Observations and Recommendations**

## **Program implementation**

## The program has not defined key policy requirements

4.17 The First Nations Child and Family Services Program was established by Indian and Northern Affairs Canada (INAC) to carry out the federal policy commitment to fund the provision, for onreserve children, of child welfare services that are culturally appropriate, that comply with provincial legislation and standards, and that are reasonably comparable with services provided off reserves in similar circumstances. The policy confirms the federal government's view that provinces have jurisdiction over the welfare of all children and that the federal government is responsible for funding reasonably comparable programs and services for children living on reserves.

- 4.18 To deliver this program as the policy requires, we expected that the Department would, at a minimum, know what "culturally appropriate services" means, what provincial legislation and standards require, and what services are available in neighbouring off-reserve communities to children in similar circumstances.
- **4.19** Comparability. We found that INAC has not analyzed and compared the child welfare services available on reserves with those in neighbouring communities off reserves. However, INAC officials and staff from First Nations agencies told us that child welfare services in First Nations communities are not comparable with off-reserve services.
- 4.20 Child welfare may be complicated by social problems or health issues. We found that First Nations agencies cannot always rely on other social and health services to help keep a family together or provide the necessary services. Access to such services differs not only on and off reserves but among First Nations as well. INAC has not determined what other social and health services are available on reserves to support child welfare services. On-reserve child welfare services cannot be comparable if they have to deal with problems that, off reserves, would be addressed by other social and health services.
- **4.21** The context in which child welfare services are delivered can be very different on and off reserves and also differs from one First Nation to another. Making comparisons could be difficult in remote and isolated areas, where First Nations constitute a large proportion of the population and provincial services are limited.
- 4.22 Moreover, in some cases, comparability may not be appropriate. For example, one First Nation we looked at had 14 percent of its children in care as of March 2007. In another case, a First Nations agency advised us that it has taken 70 children into care over a three-year-period because of parental problems with addictions. In situations like these, availability of placement opportunities and access to support services in the communities present difficulties. In such communities, the well-being of children and their chance of achieving positive outcomes can be compromised if the level and range of services are not adequate.
- 4.23 Cultural appropriateness. We found that INAC has not defined the meaning of "culturally appropriate services." Further, while INAC has provided funding to First Nations to develop culturally appropriate standards for the provinces we covered, only British Columbia has approved Aboriginal standards, although BC's own standards contain an Aboriginal component. However, Aboriginal standards

are intended for use only by the Aboriginal agencies, and in 2007, these agencies were providing services to about 65 percent of on-reserve children in care in British Columbia.

- 4.24 The number of First Nations agencies being funded is the main indicator of cultural appropriateness that INAC uses. According to INAC, the fact that 82 First Nations agencies have been created since the current federal policy was adopted means there are more First Nations children receiving culturally appropriate child welfare services. However, we found that many agencies provide only a limited portion of the services while provinces continue to provide the rest. Further, INAC does not know nationally how many of the children placed in care remain in their communities or are in First Nations foster homes or institutions.
- 4.25 In our view, INAC needs to define what is meant by reasonably comparable services and find ways to know whether the services that the program supports are in fact reasonably comparable. Further, the work of developing and implementing culturally appropriate standards for First Nations agencies to provide culturally appropriate child welfare services that meet the requirements of provincial legislation needs to be completed.
- **4.26** Recommendation. Indian and Northern Affairs Canada, in cooperation with provinces and First Nations agencies, should
  - define what is meant by services that are reasonably comparable,
  - define its expectations for culturally appropriate services and standards, and
  - implement this definition and these expectations into the program.

The Department's response. Indian and Northern Affairs Canada agrees. In partnership with provinces and First Nations—beginning with Alberta in the 2007–08 fiscal year—the program is moving to an enhanced prevention-focused approach over the next five years.

Tripartite Enhanced Prevention Frameworks will more clearly define services that are reasonably comparable with services provided in similar circumstances by the provinces to children living off reserve. Definitions of culturally appropriate services will be developed through discussions with the various First Nations based upon community circumstances, and are targeted for completion in 2012.

#### Responsibilities and services are not always well defined

- 4.27 Given the complexity associated with coordinating the federal policy of covering the costs of child welfare on reserves, the provinces' jurisdiction over child welfare, and the First Nations delivery of services, we expected to see agreements that would clearly define the respective responsibilities of INAC, the provinces, and the First Nations agencies, and the services to be provided to children. We reviewed the agreements that INAC or the federal government has signed with the provinces and the agreements signed among the provinces, First Nations agencies, and INAC.
- 4.28 We found that INAC has no agreement on child welfare services with three of the five provinces we covered in the audit—BC, Manitoba, and Quebec. The federal government has agreements with Alberta and Ontario that define these provinces' responsibilities for child welfare services on reserves, and how it will fund these services. However, the child welfare sections of the 1965 Canada-Ontario Welfare Agreement have not been updated since 1981. INAC officials told us that this has no impact on its transferring funds to Ontario to pay for services to children living on reserves. There are, however, provisions in the 1965 Agreement to keep it up-to-date and these could be used to ensure that both the Agreement and the services that the federal government pay for are current.
- 4.29 Under the program, except in Ontario, INAC needs confirmation that First Nations agencies are mandated by their respective province. This is done through delegation agreements. These agreements can be bilateral, between a province and a First Nations agency, or tripartite, when INAC is a signatory to the agreement. We found that the content of these agreements varies widely. Some agreements clearly define roles and responsibilities and the services to be provided. Others make it difficult to find out what services will be provided to First Nations children and by whom.
- 4.30 We also found that funding arrangements between INAC and First Nations agencies are generally not tied to the responsibilities that First Nations agencies have under their agreements with provinces; INAC pre-determines the level of funding it will provide to a First Nations agency without regard to the terms of the agreement between the First Nation and the province. Moreover, the funding arrangements rarely define the child welfare services to be made available by the funded agency, the results expected, or the desired outcomes. In the Alberta region, changes being made to the program

require each First Nations agency to develop a business plan that outlines goals, targets, and strategies to achieve them.

- **4.31** In our view, ensuring the safety, protection, and well-being of children requires that INAC, the provinces, and First Nations agencies have a clear understanding of their responsibilities. Up-to-date agreements among them that clearly define their respective responsibilities and the services to be provided are essential.
- **4.32 Recommendation.** Indian and Northern Affairs Canada should ensure that it has up-to-date agreements with the provinces and with First Nations agencies in place. As a minimum, these agreements should consistently define who is responsible for providing the child welfare services required under provincial legislation, and what services will be provided.

The Department's response. Once an enhanced prevention approach model is approved, business plans will be prepared by funding recipients. The Department is already working on arrangements with other provinces to ensure roles and responsibilities and services to be provided are accurately defined and funded. Recipients in those provinces will be asked to develop work plans in the 2008–09 fiscal year, based on those arrangements.

## The Department has limited assurance that services meet legislation and standards

- **4.33** Given how important the standards of care required under provincial legislation are to the safety, protection, and well-being of children, we expected that INAC would obtain assurance from provinces that First Nations agencies deliver child welfare services in accordance with provincial legislation and standards.
- **4.34** We found that in the five provinces we covered, INAC has limited assurance that child welfare services delivered on reserves by First Nations agencies comply with provincial legislation and standards. INAC officials in Ontario told us that the Department places reliance on the provincial delivery system and that it is informed by the province when there are problems.
- 4.35 We also found that Alberta and BC did inform the Department that certain provincial legislative requirements and standards were not being fully met by First Nations agencies due to a lack of funding or of flexibility in using funds available. In those cases, for example, there were indications that some on-reserve First Nations children were not receiving prevention or in-home services and were instead being placed into care.

- 4.36 INAC receives reports from two provinces on some First Nations agencies' compliance with provincial legislation and standards. We reviewed some of those reports and, in our view, certain observations should be of concern to INAC. For example, some First Nations agencies had low rates of compliance with standards of appropriate child welfare services. INAC officials told us that some provinces have intervened in critical situations. We think that when the Department is informed of deficiencies, it should follow up to ensure that timely remedial actions are taken. Without assurance that standards are met and that appropriate actions are taken, INAC does not know whether on-reserve First Nations children are adequately protected and are receiving appropriate services.
- **4.37** Recommendation. When negotiating agreements with each province, Indian and Northern Affairs Canada should, in consultation with First Nations, seek assurance that provincial legislation is being met. INAC should also analyze the information obtained and follow-up when necessary.

The Department's response. Indian and Northern Affairs Canada agrees and has already initiated discussions with its partners—provinces/territories and First Nation agencies—to clarify accountabilities for monitoring and to support First Nation agencies' adherence to provincial/territorial standards.

Indian and Northern Affairs Canada is working to revise its funding agreements to require assurances that provincial legislation is being met and to follow up when necessary.

#### Coordination with other programs is poor

- 4.38 As the protection and well-being of First Nations children may require support from other programs, we expected that INAC would facilitate coordination between the First Nations Child and Family Services Program and other relevant INAC programs, and facilitate access to other federal programs as appropriate.
- 4.39 We found fundamental differences between the views of INAC and Health Canada on responsibility for funding Non-Insured Health Benefits for First Nations children who are placed in care. According to INAC, the services available to these children before they are placed in care should continue to be available. According to Health Canada, however, an on-reserve child in care should have access to all programs and services available to any child in care in a province, and INAC should take full financial responsibility for these costs in accordance

with federal policy. INAC says it does not have the authority to fund services that are covered by Health Canada. These differences in views can have an impact on the availability, timing, and level of services to First Nations children. For example, it took nine months for a First Nations agency to receive confirmation that an \$11,000 piece of equipment for a child in care would be paid for by INAC.

- 4.40 First Nations children with a high degree of medical need are in an ambiguous situation. Some children placed into care may not need protection but may need extensive medical services that are not available on reserves. By placing these children in care outside of their First Nations communities, they can have access to the medical services they need. INAC is working with Health Canada to collect more information about the extent of such cases and their costs. Exhibit 4.3 outlines a proposal from the First Nations Child and Family Caring Society of Canada to deal with these and other issues.
- 4.41 We found that responsibilities for coordination are not clearly defined. INAC officials told us that First Nations agencies are expected to identify linkages between the various programs funded by INAC and by other federal departments. However, we found that some services are not available in all First Nations communities; for example, INAC's Family Violence Prevention Program is accessed by approximately half of the First Nations communities. Further, departments' rules for their respective programs, as approved by the Treasury Board, do not always facilitate coordination.

#### Exhibit 4.3 A dispute-resolution mechanism is needed

#### Jordan's Principle

The provision of services to children in care with complex medical needs often involves many federal departments, provincial ministries, and agencies. Jurisdictional disputes do arise and may result in delays or disrupt services to First Nations children that are otherwise available to other Canadian children. The *First Nations Child and Family Caring Society of Canada* proposes that to deal with these disputes, the government or ministry/department of first contact pay for the services without delay or disruption and then refer the question of responsibility for funding to a jurisdictional dispute-resolution mechanism.

The Society calls this proposal Jordan's Principle, in the name of a child who died in hospital while governments debated who was responsible to pay for his care when discharged.

However, in our view, a dispute-resolution mechanism will not work in the presence of irreconcilable differences and without a change in funding authorities. Such difficulties need to be resolved if this proposal is to result in better and timelier services to First Nations children.

**4.42** Recommendation. Indian and Northern Affairs Canada should resolve the fundamental differences with Health Canada related to their respective funding responsibilities for services to First Nations children in care.

The Department's response. Indian and Northern Affairs Canada and Health Canada are working to establish clear agreements on roles and responsibilities, in line with current program authorities before they expire.

- **4.43** Recommendation. In order to develop a coordinated approach to the provision of federally funded child welfare services, Indian and Northern Affairs Canada should
  - ensure that the Department's program rules facilitate coordination; and
  - in cooperation with First Nations, work with the Treasury Board of Canada Secretariat and other federal departments that fund programs for First Nations children to facilitate access to their programs.

The Department's response. Indian and Northern Affairs Canada agrees to work with federal partners to improve coordination efforts at headquarters and regional levels and will support First Nations Child and Family Services Agencies as they develop and implement a more coordinated approach to the provision of federally funded child welfare services. Currently in Alberta, agencies are using a business plan mechanism to reflect and report on coordination efforts. As the enhanced approach is adopted in other provinces, the same mechanism will be used.

#### INAC devotes limited human resources to the program

- 4.44 INAC's headquarters allocates staff to the management and policy direction of the First Nations Child and Family Services Program, while regional offices allocate staff to the program's delivery. We reviewed organization charts and discussed human resources issues with department officials to assess whether INAC had a sufficient number of people to carry out the program.
- 4.45 We found that the level of human resources INAC devotes to either managing or delivering the program is insufficient. At headquarters, no executive positions are dedicated full-time to this program, and for many years, only a few positions were devoted to the policy direction and analysis of the program. Most regional offices we visited do not have enough staff to carry out all aspects of the program's management structure. For example, INAC officials informed us that a lack of resources is the main reason why on-site compliance reviews of First Nations agencies were not carried out as required.

- 4.46 Although INAC has increased the number of positions for the program at headquarters, many of the staff are acting in their positions. And while two positions are to be added to the Alberta regional office, there are indications that implementing the new funding formula and approach will draw significantly on existing resources. For example, the Alberta regional office will need to review business plans coming from 18 Alberta First Nations agencies, and monitor their implementation.
- **4.47** Recommendation. Indian and Northern Affairs Canada should examine the human resources requirements for this program and allocate sufficient resources to meet these requirements.

The Department's response. Indian and Northern Affairs Canada agrees and has already made major progress on a comprehensive human resources plan that places the needs for this program in the broader context of the wide range of pressures on the Department.

## **Funding of services**

#### Program funding is inequitable

- **4.48** We expected that INAC would design its funding of the First Nations Child and Family Services Program in a manner consistent with the program's policy and objectives. We reviewed INAC funding practices, including funding arrangements between INAC and First Nations or provinces.
- 4.49 INAC funds some provinces for delivering child welfare services directly where First Nations do not. INAC has agreements with three of the five provinces we covered on how they will be funded to provide child welfare services on reserves. We found that in these provinces, INAC reimburses all or an agreed-on share of their operating and administrative costs of delivering child welfare services directly to First Nations and of the costs of children placed in care. Exhibit 4.4 summarizes the Department's approaches to funding the provinces covered in our audit.
- 4.50 INAC funding to cover the costs of operating and administering First Nations agencies is established through a formula. Although the program requires First Nations agencies to meet applicable provincial legislation, we found that INAC's funding formula is not linked to this requirement. The main element of the formula is the number of children aged from 0 to 18 who are ordinarily resident on the reserve or reserves being served by a First Nations agency. At the time of the audit, INAC provided First Nations agencies \$787 annually for each child ordinarily resident on reserves. In addition, INAC reimburses the agencies for the costs of children placed in care.

#### Exhibit 4.4 INAC funding methods vary by province

British Columbia. INAC signed a memorandum of understanding with the province in 1996. Under this agreement, INAC reimburses the province for the administration and supervision costs of on-reserve child welfare services and for the on-reserve children in care costs.

Alberta. Canada signed an agreement with Alberta in 1991. The agreement provides for the reimbursement to Alberta of the estimated operating and administrative costs of the child welfare services delivered directly by the province to some First Nations and the actual costs of services to children from these First Nations who are placed in care.

Ontario. Child welfare services are covered under the 1965 Canada-Ontario Welfare Agreement, INAC pays the province an agreed-on share of its costs to deliver child welfare services to on-reserve First Nations people, including the children in care costs. In addition to regular funding, INAC also provides over \$18 million annually to Ontario for enhanced prevention services provided directly to First Nations and to child welfare agencies controlled by First Nations, as well as First Nations agencies that are developing but not yet mandated.

Quebec. INAC has no agreement with the province. INAC signs contribution arrangements with provincial agencies directly providing services to some First Nations. Funding for the operations of these agencies is generally based on the funding formula used to fund First Nations agencies. Costs of services to children in care are reimbursed in the same manner as those reimbursed to First Nations agencies.

Manitoba. INAC has no agreement with the province and no funds are directly provided to it. INAC funds First Nations agencies to deliver all services on reserves.

- **4.51** The funding formula is outdated. We found that the formula was designed in 1988 and has not been significantly modified since. This has had a significant impact on the child welfare services provided to some First Nations children, as the formula does not take into account any costs associated with modifications to provincial legislation or with changes in the way services are provided.
- The formula leads to funding inequities. We also found that the formula does not always ensure an equitable allocation of program funding. The formula is based on the assumption that each First Nations agency has 6 percent of on-reserve children placed in care. This assumption leads to funding inequities among First Nations agencies because, in practice, the percentage of children that they bring into care varies widely. In the five provinces we covered, for example, it ranged from 0 to 28 percent in 2007. Further, funding is not responsive to factors that can cause wide variations in operating costs, such as differences in community needs or in support services available, in the child welfare services provided to on-reserve First Nations children, and in the actual work performed by First Nations agencies. In some instances, INAC has had to provide additional funding to respond to needs. For example, in one case we examined, a First Nation was able to convince INAC that its level of funding was

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not sufficient because a large number of its children required services. INAC provided it with an additional \$1.2 million over two years to increase its capacity to serve children in need.

- 4.53 Further, we found that INAC does not have a consistent interpretation of the costs covered by the formula when a province has not fully delegated all child welfare services to a First Nations agency. The Quebec regional office takes the position that the funding provided to First Nations under the formula is to cover the costs of all child welfare services, whether delivered by a First Nation or provided by the province. As program funding is not tied to needs, a group of First Nations has accumulated around \$4.7 million in unpaid bills owed to a provincial agency for services it provided to them because funding from INAC was not sufficient to pay for all the services. At the time of the audit, INAC was working with the group of First Nations and the agency to address this situation.
- 4.54 In contrast, the BC regional office does not require First Nations agencies funded under the formula and delivering only a portion of on-reserve child welfare services to pay the province for the administrative costs of the child welfare services they receive from it. INAC estimates that it pays over \$2 million annually to BC for services it provides to these First Nations agencies. The BC regional office considers this a duplicate payment, but we note that no concrete actions are being taken to deal with it. We believe that these inequities need to be addressed.
- 4.55 The formula is not adapted to small agencies. Consistent with the federal policy, the funding formula was designed on the basis that First Nations agencies would be responsible for serving a community, or a group of communities, where at least 1,000 children live on reserve. This was considered the minimum client base an agency could have and still provide services economically and effectively, although exceptions could be made.
- 4.56 We found that 55 of the 108 agencies funded by INAC are providing child welfare services to fewer than 1,000 children living on reserve. We noted concerns in INAC that small agencies do not always have the funding and capacity to provide the required range of child welfare services, and also have difficulties with governance, conflicts of interest, training, and management. However, action to address these concerns has been limited.
- 4.57 The shortcomings of the funding formula have been known to INAC for years; some were outlined in a policy study undertaken jointly by INAC and the Assembly of First Nations and completed

- in 2000. INAC needs to work with First Nations agencies and the provinces on finding ways to resolve these issues.
- 4.58 Program funding is not properly coordinated. Under the Children's Special Allowance Act, the federal government provides all child welfare agencies in Canada a monthly payment for the care and maintenance of each child placed in care. For the agencies serving children on reserves, this special allowance is paid for the same children that INAC pays for under its program.
- 4.59 We found that INAC does not deal with special allowances consistently. In Ontario and BC, the special allowance payments are taken into account in the amounts that these provinces claim from INAC. In 2007, for example, we estimate that this resulted in a reduction of approximately \$6 million in INAC program costs. Conversely, in the other provinces covered in our audit, and when First Nations agencies deliver the services, INAC funding does not take the special allowance into account. We estimate that these provinces and First Nations agencies received around \$17 million in special allowance payments in 2007 for the care and maintenance of on-reserve children in care. Under its program, INAC paid them the full costs of the care and maintenance for the same children.
- 4.60 Under the current Treasury Board authority, starting 1 April 2008, INAC has to deduct special allowance payments from its funding for the maintenance costs of First Nations children in care. INAC was given one year to advise the provinces and First Nations agencies and allow them to prepare for this change. At the time of our audit, however, INAC had not formally communicated this change.
- 4.61 We note that the change is likely to have serious implications for some First Nations agencies, particularly those with a large number of children in care. For example, one First Nations agency we examined received about \$1.2 million annually in special allowance payments and used this money to supplement INAC funding for its operating and administrative costs. When the special allowance is no longer available for that purpose, the resources for this agency's operations will be reduced by approximately 30 percent. INAC officials were aware of the problem. It is not clear how this First Nations agency, and others in a similar situation, will cope with the change.
- **4.62** The funding formula is being revised in Alberta. In 2007, INAC obtained authority from the federal government to link its funding of Alberta First Nations agencies to provincial legislation. It has undertaken to provide them with funding and flexibility to deliver services that meet provincial legislation. In cooperation with

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First Nations and Alberta, the Department has developed a new formula and funding approach for Alberta First Nations agencies.

- 4.63 We analyzed the new funding formula and approach and found that it will provide more funds for the operations of First Nations agencies; it also offers them more flexibility to allocate resources to different types of child welfare services. On average, funding to Alberta First Nations agencies for the operation and prevention components will have increased by 74 percent when the new formula is fully implemented in 2010. This should lead to better services for First Nations children.
- 4.64 However, we also found that the new formula does not address the inequities we have noted under the current formula. It still assumes that a fixed percentage of First Nations children and families in all the First Nations served by an agency need child welfare services. Consequently, in our view, the new formula will not address differing needs among First Nations. Pressures on INAC to fund exceptions will likely continue to exist under the new formula.
- **4.65** INAC states that it plans to seek similar authority to change the way it funds First Nations agencies in all provinces where it funds them directly. The plan is to complete this work by 2012.
- 4.66 In our view, the funding formula needs to become more than a means of distributing the program's budget. As currently designed and implemented, the formula does not treat First Nations or provinces in a consistent or equitable manner. One consequence of this situation is that many on-reserve children and families do not always have access to the child welfare services defined in relevant provincial legislation and available to those living off reserves. It is also not consistently harmonized with the special allowance payments provided by the federal government for children in care.
- 4.67 Recommendation. Indian and Northern Affairs Canada, in consultation with First Nations and provinces, should ensure that its new funding formula and approach to funding First Nations agencies are directly linked with provincial legislation and standards, reflect the current range of child welfare services, and take into account the varying populations and needs of First Nations communities for which it funds on reserve child welfare services.

The Department's response. Indian and Northern Affairs Canada's current approach to Child and Family Services includes reimbursement of actual costs associated with the needs of maintaining a child in care. The Department agrees that as new partnerships are entered into,

based on the enhanced prevention approach, funding will be directly linked to activities that better support the needs of children in care and incorporate provincial legislation and practice standards.

#### Financial obligations are not reflected in the allocation of resources to the program

- 4.68 Under government policy, the costs of child welfare services to children and families ordinarily resident on reserves are covered by the federal government. In accordance with that policy, INAC enters into funding agreements with First Nations agencies and provinces to pay for on-reserve child welfare services and cover the costs of children placed in care. Through delegation agreements with provinces and funding arrangements with INAC, First Nations agencies are obligated to ensure that child welfare services available to First Nations children meet provincial legislation and standards.
- 4.69 We found that there is no link between the financial obligations of this program and how resources are allocated to it. Unlike other programs, the program's expenditures are not fully under the control of INAC. However, the program can be affected by global budget decisions. For example, in 1995, INAC decided not to adjust the funding formula for inflation. This was a response to a federal government request that INAC and other federal departments moderate the pace at which their program expenditures were growing. INAC officials told us that this action was consistent with measures taken across the federal government at that time.
- 4.70 INAC states that it addresses health and safety issues properly when it makes these budgeting decisions. It also says, however, that over time the lack of adjustment for inflation has had negative impacts on many First Nations agencies. These agencies could not, for example, pay their staff at the same pay scale as staff working for provincial agencies and, as a result, they have difficulties attracting and retaining qualified social workers and meeting their obligations under provincial legislation or their agreements with the province. In 2005, the federal government provided \$125 million over five years to support the program and increase First Nations agency funding.
- 4.71 The program's budget has increased significantly over the last few years—from \$193 million in 1997 to \$450 million in 2007. The Department attributes this increase to the creation of new First Nations agencies and to factors outside its control, such as the growing number of children living on reserves, the number placed in care, the need to use expensive types of placement, such as specialized institutions, and the child welfare services required.

- 4.72 Because the program's expenditures are growing faster than the Department's overall budget, INAC has had to reallocate funding from other programs. In a 2006 study, the Department acknowledged that over the past decade, budget reallocations—from programs such as community infrastructure and housing to other programs such as child welfare—have meant that spending on housing has not kept pace with growth in population and community infrastructure has deteriorated at a faster rate.
- 4.73 In our view, the budgeting approach INAC currently uses for this type of program is not sustainable. Program budgeting needs to meet government policy and allow all parties to fulfill their obligations under the program and provincial legislation, while minimizing the impact on other important departmental programs. The Department has taken steps in Alberta to deal with these issues and is committed to doing the same in other provinces by 2012.
- **4.74 Recommendation.** Indian and Northern Affairs Canada should determine the full costs of meeting the policy requirements of the First Nations Child and Family Services Program. It should periodically review the program's budget to ensure that it continues to meet program requirements and to minimize the program's financial impact on other departmental programs.

The Department's response. Indian and Northern Affairs Canada agrees to regularly update its estimate of the cost of delivering the program with the new approach on a province-by-province basis, over the next five years.

The program budget will be periodically reviewed by the Department in the context of overall priorities and program requirements.

## Compliance with Treasury Board authority could be improved

- 4.75 We expected that INAC would comply with the Treasury Board authority for the program and would ensure that the funding it provides is used for the intended purposes.
- **4.76** We found that INAC complies with the Treasury Board authority for the program by ensuring that funding for operations is provided for eligible First Nations agencies. However, we also found that compliance with authority could be improved.
- 4.77 Compliance reviews. To be eligible for INAC funding, a child has to be registered as a status Indian and be ordinarily resident on a reserve. We found that INAC officials can determine whether a child is registered as a status Indian or is entitled to be by using the Indian

Registry System operated by the Department. We also found, however, that INAC has not developed a consistent manner to assess a child's residency. INAC usually relies on the information provided by the province, First Nations, or agencies but cannot independently verify this information.

- 4.78 In its Alberta, Manitoba, and Quebec regional offices, we found that INAC reviews the claims for reimbursement submitted by First Nations agencies or by the province to identify expenses that are not allowable, and that it reconciles the amount it provides them with the actual expenses claimed. However, we also found that INAC's reviews of these claims cannot determine whether the expenses claimed are reasonable. For example, one region reimbursed a First Nations agency for transportation costs that were high enough to be considered questionable.
- **4.79** To strengthen the review of the expenses claimed by First Nations agencies, INAC is supposed to periodically carry out on-site compliance reviews. The main purposes of these reviews are to provide INAC with additional assurance that children whose care it is funding are ordinarily residents on reserves, that only allowable expenses have been claimed for reimbursement, that expenses are reasonable and accurate, and that the funds were used for the intended purposes.
- 4.80 While some on-site compliance reviews were undertaken, sometimes in partnership with a province, we found that INAC regional offices do not perform all required periodic compliance reviews. In addition, in two regions where compliance reviews were done, we found that payments made for non-allowable expenses were not recovered as they should have been under the program's authority. For one First Nations agency we examined, approximately \$100,000 should have been recovered. INAC officials told us that it was decided before undertaking the reviews not to recover non-allowable expenses in order to emphasize to recipients the need to improve practices. They also told us that the intent is to recover non-allowable expenses in future on-site compliance reviews.
- 4.81 Costs for children in care in BC. Treasury Board authority for the program requires INAC to reimburse First Nations agencies for the actual costs of each child placed in care and to ensure that all expenditures are allowable under the program. We found that INAC pays First Nations agencies in BC a pre-determined amount per day of care and makes no attempt to relate this amount to the actual expenses incurred for these children. We also found that the actual costs of First Nations children placed in care in some First Nations

agencies are lower than the amount provided by INAC. Further, INAC does not review the agencies' expenses to ensure that they are allowable under the program. In our view, these practices are not consistent with the Treasury Board authority.

**4.82** Recommendation. Indian and Northern Affairs Canada should carry out the on-site compliance reviews required under the First Nations Child and Family Services Program. It should also ensure that its British Columbia region complies with Treasury Board authority.

The Department's response. Indian and Northern Affairs Canada agrees. The Department has begun to revise the Child and Family Services program manual and an updated Compliance Directive will be added in the 2008–09 fiscal year.

Indian and Northern Affairs Canada will be working with regional offices, British Columbia in particular, to ensure compliance with program authorities. Compliance audits will be undertaken where risk indicates that this is required.

#### Information for accountability

#### The Department lacks information on the program

- **4.83** Given the program's impact on the lives of on-reserve First Nations children and families, we expected that INAC would define and collect appropriate information to manage and account for the program. We reviewed the information collected by INAC and a program evaluation completed in 2007.
- **4.84** We found that while INAC has defined some of its information needs, they relate mostly to its funding responsibilities. The information that INAC requires from First Nations and provinces is focused on the volume of services to children in care, such as days of care, and on the costs of services provided to these children. This information is tied directly to actual payments to provinces and First Nations agencies and supports program budgeting and funding allocation to regions.
- 4.85 We found that INAC collects very limited information on the actual services funded through its funding formula. It does not have information on the volume of activities carried out by the First Nations agencies, such as the number of contacts with child welfare services, the number of assessments, or the major reasons why children come into care. This information would be important in assessing the need for child welfare services in a particular First Nations community and providing guidance to determine the funding needed. It could also help

in monitoring how the funding provided was used and what difference it made in the lives of on-reserve First Nations children and their communities.

- 4.86 We found that INAC has little information on the outcomes of its funding on the safety, protection, or well-being of children living on reserves. As a result, it is unaware of whether or to what extent its program makes a positive difference in the lives of the children it funds.
- 4.87 In our view, the information INAC collects falls far short of the child welfare program and policy requirements. The Department is aware of the limits of the information it possesses, and it has identified some of the additional information it needs. These are steps in the right direction. However, a lot of work remains to clearly identify performance indicators and the necessary information, and to obtain the cooperation of the provinces and First Nations in collecting this information and ensuring its quality.
- 4.88 Program evaluation. INAC completed a departmental evaluation of the program early in 2007. From the outset, the evaluation questioned whether evaluating the program was possible: it considered that the program objectives were too broad and that the expected outcomes had not been defined. In addition, it found no systematically collected interim or longer-term outcome information on the program.
- **4.89** We found that given these limitations, the evaluation did not explore the effectiveness of First Nations agencies or the quality of the services they offer. Instead, it was future-oriented, seeking to explore and recommend program changes to help reduce the number of on-reserve children coming into care and to improve outcomes for First Nations children and families.
- 4.90 In our view, this evaluation missed an opportunity to find out more about the program, the effectiveness of First Nations agencies, and the overall impact of services on children's lives. INAC plans to undertake another evaluation in 2010. Unless procedures are soon put in place to collect more and better information and responsibilities are assigned, this evaluation will face the same limitations as the previous one.
- **4.91** Recommendation. Indian and Northern Affairs Canada should define the information it needs to manage the program and account for its results, with a particular emphasis on results and outcomes. In cooperation with First Nations and provinces, INAC should develop performance indicators, define the information required, collect the information, and ensure its quality.

The Department's response. Indian and Northern Affairs Canada agrees. It began a comprehensive validation exercise in February 2008 to be completed by December 2008. The program intends to validate the performance indicators with First Nations, to ensure that they are robust and that performance measures lead to data collection that is appropriate, with emphasis on results and outcomes.

The Indian and Northern Affairs Canada "Smart Reporting" exercise is intended to drive the collection of meaningful, relevant, and timely performance data, while ensuring the reduction of reporting requirements on First Nations. This exercise will be used to establish what performance information is required and, if it is not currently available, how it will be obtained.

## Conclusion

- 4.92 Our audit found that Indian and Northern Affairs Canada does not have assurance that the First Nations Child and Family Services Program funds child welfare services for on-reserve First Nations children and families that are culturally appropriate and reasonably comparable with those normally provided off reserves in similar circumstances. In most provinces we visited, many on-reserve children and families do not always have access to the child welfare services defined in relevant provincial legislation and available to those living off reserves.
- **4.93** We also found that INAC obtains insufficient assurance that the child welfare services funded under the First Nations Child and Family Services Program are delivered in accordance with relevant provincial legislation and standards.
- **4.94** Finally, INAC does not have sufficient and appropriate information to monitor the program's results and costs for purposes of both program management and accountability.
- 4.95 This program was established to implement a federal government policy. It is linked to provincial legislation and has direct impact on the safety and well-being of on-reserve children and families. In our view, the program needs to be better supported, managed, and overseen. It also requires better information on results and on the outcomes for children. Although the solutions to some of the problems faced by on-reserve children and families do not depend entirely on the availability and quality of child welfare services, steps need to be taken to address the management deficiencies noted in this audit.

THE RESERVE

## About the Audit

#### **Objectives**

Our objectives for the audit were to determine whether Indian and Northern Affairs Canada (INAC)

- has assurance that the First Nations Child and Family Services Program provides on-reserve First
  Nations children and families with culturally appropriate child welfare services reasonably comparable
  to those normally provided off reserves in similar circumstances,
- has assurance from the provinces that the child welfare services funded by the program are delivered in accordance with their legislation and standards, and
- collects sufficient and appropriate information on results and costs for program management and accountability purposes.

#### Scope and approach

Our audit focused on INAC's First Nations Child and Family Services Program; in particular, we examined the management structure and processes and the resources used to implement the federal government policy on First Nations child and family services. We also included, where relevant, information on the support available from other INAC programs and programs of other federal departments, such as Health Canada (non-insured health benefits) and the Canada Revenue Agency (Children's Special Allowance). The audit mainly covered fiscal years 2005–06 and 2006–07.

We looked at the program's design and implementation, as well as INAC's monitoring and measurement of program results. We interviewed INAC managers and staff and reviewed relevant documents at five INAC regional offices (British Columbia, Alberta, Manitoba, Ontario, and Quebec) and at headquarters. In most of these regional offices, we reviewed the information that INAC had on selected First Nations and First Nations agencies. We also looked at INAC files containing information on the funding provided to provinces. In the Ontario regional office, we reviewed the interpretation and implementation of the 1965 Canada-Ontario Welfare Agreement as it relates to First Nations child welfare.

Additionally, we interviewed officials at the Canada Revenue Agency, Health Canada, and Human Resources and Social Development Canada. Although we did not audit the activities carried out by First Nations and their agencies, we sought their views on matters related to child welfare. To that end, we visited eight First Nations communities or child welfare agencies. In these community visits, we discussed matters with managers and staff working on child welfare. We also sought the views of national and regional First Nations organizations and reviewed the documentation provided by them. We also met with some provincial officials and organizations and child welfare specialists.

#### Criteria

We expected Indian and Northern Affairs Canada

- to have clear authorities and expected results for the program;
- to have agreements clearly defining respective responsibilities for INAC, First Nations agencies, and the provinces and the child welfare services to be provided;
- to obtain from provinces assurance that First Nations agencies deliver services in accordance with provincial legislation and standards;
- to facilitate coordination between the First Nations Child and Family Services Program and other relevant INAC programs, and facilitate access to other relevant federal programs;
- to design its funding of the program consistent with the program's policy and objectives;
- to comply with Treasury Board authority and ensure that funding is being used for the purposes intended; and
- to define and collect appropriate information for program management and accountability.

#### Audit work completed

Audit work for this chapter was substantially completed on 9 November 2007.

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## **Appendix** List of recommendations

The following is a list of recommendations found in Chapter 4. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

#### Response Recommendation Program implementation Indian and Northern Affairs Indian and Northern Affairs Canada agrees. In partnership with provinces and First Nations—beginning with Alberta in the Canada, in cooperation with provinces and First Nations agencies, should 2007–08 fiscal year—the program is moving to an enhanced prevention-focused approach over the next five years. • define what is meant by services Tripartite Enhanced Prevention Frameworks will more clearly that are reasonably comparable, define services that are reasonably comparable with services define its expectations for culturally provided in similar circumstances by the provinces to children appropriate services and standards, living off reserve. Definitions of culturally appropriate services and will be developed through discussions with the various First Nations based upon community circumstances, and are implement this definition and targeted for completion in 2012. these expectations into the program. (4.17 - 4.25)**4.32** Indian and Northern Affairs Once an enhanced prevention approach model is approved, business plans will be prepared by funding recipients. The Canada should ensure that it has Department is already working on arrangements with other up-to-date agreements with the provinces to ensure roles and responsibilities and services to be provinces and with First Nations agencies in place. As a minimum, provided are accurately defined and funded. Recipients in those provinces will be asked to develop work plans in the 2008–09 these agreements should consistently fiscal year, based on those arrangements. define who is responsible for providing the child welfare services required under provincial legislation, and what services will be provided. (4.27 - 4.31)**4.37** When negotiating agreements Indian and Northern Affairs Canada agrees and has already with each province, Indian and initiated discussions with its partners—provinces/territories and Northern Affairs Canada should, in First Nation agencies—to clarify accountabilities for monitoring consultation with First Nations, seek and to support First Nation agencies' adherence to provincial/

territorial standards.

Indian and Northern Affairs Canada is working to revise its

funding agreements to require assurances that provincial

legislation is being met and to follow up when necessary.

(4.33-4.36)

when necessary.

assurance that provincial legislation is being met. INAC should also analyze

the information obtained and follow-up

# 4.42 Indian and Northern Affairs Canada should resolve the fundamental differences with Health Canada related to their respective funding responsibilities for services to First Nations children in care.

Recommendation

Response

Indian and Northern Affairs Canada and Health Canada are working to establish clear agreements on roles and responsibilities, in line with current program authorities before they expire.

(4.38 - 4.41)

4.43 In order to develop a coordinated approach to the provision of federally funded child welfare services, Indian and Northern Affairs Canada should

- ensure that the Department's program rules facilitate coordination; and
- in cooperation with First Nations, work with the Treasury Board of Canada Secretariat and other federal departments that fund programs for First Nations children to facilitate access to their programs.

(4.38 - 4.41)

4.47 Indian and Northern Affairs
Canada should examine the human
resources requirements for this program
and allocate sufficient resources to meet
these requirements.

(4.44 - 4.46)

Indian and Northern Affairs Canada agrees to work with federal partners to improve coordination efforts at headquarters and regional levels and will support First Nations Child and Family Services Agencies as they develop and implement a more coordinated approach to the provision of federally funded child welfare services. Currently in Alberta, agencies are using a business plan mechanism to reflect and report on coordination efforts. As the enhanced approach is adopted in other provinces, the same mechanism will be used.

Indian and Northern Affairs Canada agrees and has already made major progress on a comprehensive human resources plan that places the needs for this program in the broader context of the wide range of pressures on the Department.

Recommendation	Response
Funding of services	
4.67 Indian and Northern Affairs Canada, in consultation with First Nations and provinces, should ensure that its new funding formula and approach to funding First Nations agencies are directly linked with provincial legislation and standards, reflect the current range of child welfare services, and take into account the varying populations and needs of First Nations communities for which it funds on-reserve child welfare services. (4.48–4.66)	Indian and Northern Affairs Canada's current approach to Child and Family Services includes reimbursement of actual costs associated with the needs of maintaining a child in care. The Department agrees that as new partnerships are entered into, based on the enhanced prevention approach, funding will be directly linked to activities that better support the needs of children in care and incorporate provincial legislation and practice standards.
4.74 Indian and Northern Affairs Canada should determine the full costs of meeting the policy requirements of the First Nations Child and Family Services Program. It should periodically review the program's budget to ensure that it continues to meet program requirements and to minimize the program's financial impact on other departmental programs. (4.68–4.73)	Indian and Northern Affairs Canada agrees to regularly update its estimate of the cost of delivering the program with the new approach on a province-by-province basis, over the next five years.  The program budget will be periodically reviewed by the Department in the context of overall priorities and program requirements.
4.82 Indian and Northern Affairs Canada should carry out the on-site compliance reviews required under the First Nations Child and Family Services Program. It should also ensure that its British Columbia region complies with Treasury Board authority. (4.75–4.81)	Indian and Northern Affairs Canada agrees. The Department has begun to revise the Child and Family Services program manual and an updated Compliance Directive will be added in the 2008–09 fiscal year.  Indian and Northern Affairs Canada will be working with regional offices, British Columbia in particular, to ensure compliance with program authorities. Compliance audits will be undertaken where risk indicates that this is required.

Recommendation

#### Response

#### Information for accountability

4.91 Indian and Northern Affairs
Canada should define the information
it needs to manage the program and
account for its results, with a particular
emphasis on results and outcomes.
In cooperation with First Nations
and provinces, INAC should develop
performance indicators, define the
information required, collect the
information, and ensure its quality.
(4.83–4.90)

Indian and Northern Affairs Canada agrees. It began a comprehensive validation exercise in February 2008 to be completed by December 2008. The program intends to validate the performance indicators with First Nations, to ensure that they are robust and that performance measures lead to data collection that is appropriate, with emphasis on results and outcomes.

The Indian and Northern Affairs Canada "Smart Reporting" exercise is intended to drive the collection of meaningful, relevant, and timely performance data, while ensuring the reduction of reporting requirements on First Nations. This exercise will be used to establish what performance information is required and, if it is not currently available, how it will be obtained.



## Report of the Auditor General of Canada to the House of Commons—May 2008

A Message from the Auditor General of Canada

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Report of the
Auditor General
of Canada
to the House of Commons

MAY

Chapter 5
Surveillance of Infectious Diseases—
Public Health Agency of Canada





# 2008



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The May 2008 Report of the Auditor General of Canada comprises A Message from the Auditor General of Canada, Main Points—Chapters 1 to 8, and eight chapters. The main table of contents for the Report is found at the end of this publication.

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## Chapter

# 5

Surveillance of Infectious Diseases
Public Health Agency of Canada

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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# Surveillance of Infectious Diseases Public Health Agency of Canada

#### **Main Points**

#### What we examined

The Public Health Agency of Canada is the federal organization responsible for the surveillance of infectious diseases. It was created in 2004, following the outbreak of SARS (severe acute respiratory syndrome) in Canada.

The Agency defines surveillance as the ongoing, systematic use of routinely collected health data to guide timely public health action. To obtain the surveillance data it needs, the Agency works in concert with other federal departments and agencies and other levels of government, as well as health professionals, hospitals, and laboratories across the country.

We examined whether the Agency, in collaboration with its partners, has obtained, analyzed, and disseminated the information needed to help anticipate, prevent, and respond to threats of infectious disease. We also followed up on some serious concerns raised by our audits in 1999 and 2002, when surveillance of infectious diseases was the responsibility of Health Canada.

#### Why it's important

Effective surveillance of infectious diseases can lead to concrete actions such as responding to outbreaks of food-borne illness, controlling insects that carry disease, and developing new vaccines. Well-informed and rapid public health actions can prevent and contain outbreaks, reduce the economic burden of infectious diseases, and ultimately save lives.

Canada's international obligation to report serious infectious diseases to the World Health Organization became more demanding with the recent strengthening of the *International Health Regulations*. Outbreaks of diseases such as SARS and the avian influenza have underscored the need for such reporting.

#### What we found

• The Agency has surveillance systems in place to detect and monitor existing and emerging infectious diseases in Canada, but fundamental are three constitutions 1904 and 2001 reports remain We recommend that there were competing demands associated with launching a new organization and that the collaboration of its partners is necessary to

- achieve some results. However, while important steps have been taken to respond to our past recommendations, the Agency has not made satisfactory progress on those related to strategic direction, data quality, results measurement, and information sharing.
- To obtain routine surveillance information, the Agency relies on the goodwill of the provinces and territories. However, due to gaps in its information-sharing agreements with them, it is not assured of receiving timely, accurate, and complete information. A data-sharing agreement recently signed with Ontario re-established the regular flow of information about individual cases after two years when this flow was limited. However, the Agency has not reached similar data-sharing agreements with the remaining provinces and territories. This limits its ability to provide Canadians with a complete and consistent national picture of infectious diseases as a basis for public health actions.
- With its partners, the Agency has laid the groundwork for sharing essential information in the event of a public health emergency. However, critical arrangements—such as procedures for notifying other parties, and protocols affecting the collection, use, and disclosure of personal information—still need to be sorted out. The 2003 SARS crisis demonstrated why such arrangements were needed. Until these arrangements are in place, it may be more difficult for the Agency to obtain the information needed to prevent and respond to a disease outbreak. Consequently, faced with a public health threat that could affect other countries, the Agency may be unable to notify the World Health Organization within the times specified in the revised *International Health Regulations* and to keep it informed of subsequent events.
- The Public Health Agency and the Canadian Food Inspection Agency have not determined jointly which of the animal diseases that could affect people are the highest priorities for surveillance, and which of the two agencies will carry out surveillance of what diseases. Given that 65 to 80 percent of newly identified human diseases come from animals, it is important that these health risks to Canadians be well managed.

The Public Health Agency of Canada, Health Canada, and the Canadian Food Inspection Agency have responded. The Public Health Agency of Canada, Health Canada, and the Canadian Food Inspection Agency have agreed with our recommendations and are taking action to address the concerns raised in the chapter. Their detailed responses follow each recommendation throughout the chapter.

Infectious disease—Illness caused by the spread of bacteria, viruses, and other infecting agents from person to person or from animal to human. Transmission may occur through diverse pathways, including inhalation and sexual activity. Infecting agents may be transmitted as well through blood, food, water, and insects and other animals. Also known as contagious or communicable disease.

#### Introduction

- **5.1** Public health officials need to know when and where infectious disease outbreaks occur so that they can reduce the health impacts on Canadians. To gain this knowledge, they require effective surveillance. The Public Health Agency of Canada defines surveillance as the ongoing, systematic use of routinely collected health data to guide timely public health action. For example, surveillance results showing the recent dramatic increase in sexually transmitted infections in Canada led to a rethinking of prevention strategies.
- 5.2 Outbreaks of infectious diseases, such as influenza, can strike quickly, with huge and unpredictable economic impacts. The 2003 SARS (severe acute respiratory syndrome) outbreak in Asia and Canada had an estimated economic impact of over \$20 billion, even though fewer than 9,000 people contracted the disease. Well-informed and rapid public health actions can prevent and contain outbreaks, reduce the economic burden of infectious diseases, and ultimately save lives (Exhibit 5.1).

#### Threats from infectious diseases

- 5.3 Infectious diseases do not respect national borders, making all nations vulnerable to outbreaks. According to the World Health Organization (WHO), infectious diseases are emerging more quickly than ever before: there are now nearly 40 diseases that were unknown a generation ago. Factors that contribute to the increase in risk include the following:
  - Rapid growth in international travel and trade is providing greater opportunities for infectious diseases to spread. Airlines carried an estimated 2.1 billion passengers in 2006.
  - Resistance to antimicrobial drugs is growing, making many common infectious diseases more expensive or difficult to treat.
  - Climate change and land use changes are displacing animals and bringing them into closer contact with humans. Diseases that were previously confined to animals can cross the species barrier and infect humans.
- 5.4 These trends make it even more important for public health officials to detect new outbreaks quickly and to have surveillance programs for systematically monitoring the spread of infectious diseases. Public health officials also require appropriate tools to monitor possible international public health threats that could affect Canada.

Cases

90
80
reporting response

10
10
10
11
10
11
10
13
16
19
22
25
28
31
34
37
40

Days

Exhibit 5.1 Early detection of global outbreaks can reduce the number of people affected

This exhibit is based on a theoretical model of the impact of public health actions.

Source: World Health Organization

#### Shared responsibilities for infectious disease surveillance

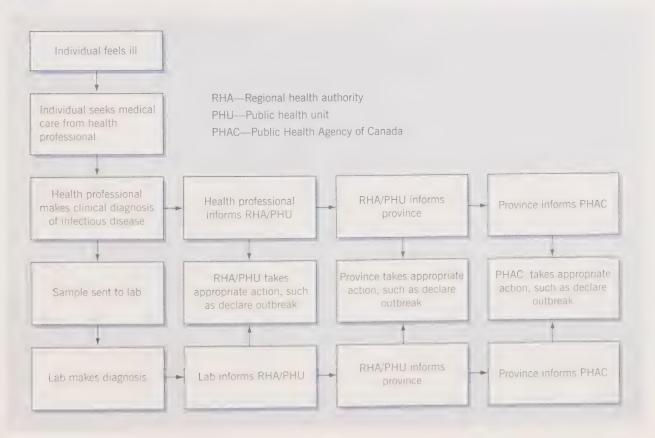
Many players are involved in infectious disease surveillance 5.5 in Canada (Exhibit 5.2). The provinces and territories have primary responsibility for detecting, monitoring, and reporting infectious disease cases. The Public Health Agency of Canada leads federal efforts. Its Infectious Disease and Emergency Preparedness Branch had a budget of \$139.4 million in the 2006-07 fiscal year; within it, the Centre for Infectious Disease Prevention and Control had a budget of \$71.2 million in the same year. Its role is to mobilize pan-Canadian action to prevent infectious diseases, and to work with its partners to promote and protect national and international public health. To obtain the surveillance data it needs, the Agency works with other federal departments and agencies, and other levels of government, as well as health professionals, hospitals, and laboratories across the country. Internationally, it works with WHO and public health organizations in other countries.

#### Concerns raised in 1999 and 2002

- **5.6** In 1999 and 2002, we examined the management of federal surveillance programs for infectious diseases, which was then the responsibility of Health Canada. In 1999, we found several shortcomings:
  - There was no specific legislation, policy, or agreement linking separate components of public health functions across Canada's various levels of government.

- Key surveillance systems were not working as intended.
- Steps had been taken to create a national health surveillance network but there was no schedule for implementation.
- 5.7 In 2002, we found only limited progress toward resolving some of these issues. National surveillance remained weak: many systems still lacked timely, accurate, and complete infectious disease information; gaps persisted in surveillance. The legislative review by Health Canada had not been completed and no public health legislation was in place. We reported that an integrated approach to national health surveillance was still years away.
- 5.8 In 1999 and again in 2002, we concluded that the weaknesses, taken together, compromised Health Canada's ability to anticipate, prevent, identify, respond to, monitor, and control diseases and injuries. Furthermore, they compromised the Department's ability to design, deliver, and evaluate public health activities. Given the importance of our past observations and the limited progress achieved by Health Canada, we decided to revisit the topic.

Exhibit 5.2 How surveillance information gets to the Public Health Agency of Canada



#### New challenges and opportunities

- 5.9 Since our 2002 audit, the situation has changed significantly:
  - In response to recommendations in reports on the 2003 SARS outbreak, the federal government established the Public Health Agency of Canada in 2004. The Agency has taken over responsibility for most public health issues from Health Canada, including surveillance of infectious diseases. The report by the National Advisory Committee on SARS and Public Health signalled the need for several measures to strengthen surveillance, including additional funds.
  - WHO has set new expectations for member countries with regard to reporting and responding to the international spread of infectious diseases. Instead of simply reporting on the presence of a small number of diseases, the new *International Health Regulations* require WHO members to continually assess new public health threats and determine whether any of them represent a potential public health emergency of international concern.
  - The Pan-Canadian Public Health Network was created in 2005, bringing together federal, provincial, and territorial representatives.
     It serves as a mechanism for collaboration and coordination on public health issues.
- 5.10 These developments have raised expectations and created opportunities for improving how the federal government manages the surveillance of infectious diseases in Canada.

#### Focus of the audit

- 5.11 Our audit examined whether the Agency had set objectives and priorities for surveillance based on the public health threats of infectious diseases, and the extent to which it had defined its roles and responsibilities in this area. We also wanted to know whether the Agency had obtained, analyzed, and reported information on selected existing infectious diseases as well as emerging ones (Exhibit 5.3). Furthermore, we wanted to determine whether the Agency was meeting its new international obligations. Finally, we examined the Agency's progress on selected recommendations from our past reports.
- **5.12** Within the Public Health Agency, we focused our work on the centres responsible for infectious diseases and emergency preparedness, including the laboratories directly involved in surveillance. Given the close links between animal and human diseases, we also considered surveillance activities carried out by the Canadian Food Inspection Agency.

- **5.13** The audit focused on the surveillance of infectious diseases. We did not audit the surveillance of chronic diseases and injuries, nor did we audit emergency preparedness or the management of outbreaks.
- **5.14** More details on the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Exhibit 5.3 Infectious diseases selected for analysis



The human immunodeficiency virus (HIV) causes acquired immunodeficiency syndrome (AIDS). Its attacks on the immune system result in a chronic, progressive illness, leaving infected people vulnerable to opportunistic infections and cancers. The Agency estimated that 58,000 Canadians were living with HIV infections at the end of 2005—a 16 percent increase from the 2002 estimate of 50,000.



Verctungenic E coli bacterium

Verotoxigenic *Escherichia coli* is a particularly toxic variant of this type of bacterium, found naturally in the intestines of cattle and other animals. Infections can result in serious illness. One study estimates the number of cases of food-borne illness each year in Canada at 11 to 13 million. The proportion due to *E. coli* is not known.



West Nile virus

The West Nile virus is transmitted to humans mainly through the bite of infected mosquitoes. The mosquitoes become infected by feeding on the blood of birds carrying the virus. Most people infected with the virus have no symptoms or else have flu-like symptoms. The virus can cause severe illness, resulting in hospitalization and even death. There were 2,353 cases of West Nile virus infections reported in Canada in 2007 and two deaths reported in 2006.



Influenza virus

The influenza (or flu) virus causes a common respiratory illness. The number of affected people typically peaks in winter. Each year, an estimated maximum of 6 million Canadians fall sick with influenza, an average of 20,000 are hospitalized, and an average of 4,000 (between 1,000 and 8,000) Canadians die of the disease and its complications.

Source Public Health Agency of Canada

#### **Observations and Recommendations**

#### Strategic directions

**5.15** Well-formulated objectives and priorities allow an organization to define what it should be doing and allocate its resources efficiently. According to the World Health Organization guidelines,

prioritization is part of the process to strengthen a national surveillance system for communicable diseases and can be used as an aid in making decisions for resource allocation. Once priorities are set, the adequacy of the existing surveillance system to cover the most important diseases needs to be reviewed and, if necessary, revised. Alternative methods of surveillance need to be considered and areas for improvement need to be identified.

#### The Agency is taking some steps to develop strategic objectives and priorities

- **5.16** To set a strategic direction for infectious disease surveillance, we expected the Public Health Agency of Canada to have established surveillance objectives and priorities based on public health threats.
- 5.17 We observed that the Agency had assessed the public health threats from existing infectious diseases. Beginning in 2005, it coordinated a systematic threat assessment of known infectious diseases to update the list of nationally **notifiable diseases**. A working group ranked a long list of infectious diseases against criteria such as severity, prevalence, outbreak potential, preventability, socio-economic burden, and need for public health action. The top 60 diseases formed the updated list published in October 2006. The provinces and territories have agreed to report cases of these diseases to the Agency voluntarily.
- **5.18** We found that the Agency has not used these public health threat assessment results, or another consistently applied risk assessment, to set its objectives and priorities. The Agency's Report on Plans and Priorities for the 2007–08 fiscal year lays out broad directions, but does not indicate which surveillance systems are priorities and why.
- **5.19** Emerging threats from infectious diseases also need to be assessed when setting objectives and priorities. Assessing these threats can be a daunting task. The Agency's senior managers assess daily information from different sources regarding threats to the health of Canadians. Actions are taken to address the immediate threats. The discussions of public health threats result in decisions, such as advising Canadians travelling abroad of the risks they may face.

Notifiable disease—An infectious disease deemed of sufficient importance to public health to require that its occurrence be reported to public health officials.

- 5.20 Another important aspect of assessing emerging threats is the long-range analysis of trends and predicted conditions to identify future surveillance needs. The Agency supported a project to gather information on trends and future conditions related to infectious diseases. The project report, produced in 2005, presents gaps or changes in emphasis in the research on and response to infectious diseases for the next five years and makes several recommendations. We found, however, that the Agency has not used the results of this exercise to set long-term objectives and priorities for surveillance of emerging diseases.
- **5.21** In 2002, we noted that Health Canada had not identified its surveillance priorities. Following its creation, the Agency is now putting in place its approach for managing public health issues, including the way in which it will perform surveillance. It has acknowledged the need for surveillance objectives and priorities, and it has recently taken steps to establish them. In March 2007, the Agency created a working group to coordinate a strategic approach to surveillance. By November 2007, the working group had produced a plan for working toward a surveillance strategy.
- **5.22** Recommendation. To ensure effective management of risks posed by existing and emerging infectious diseases, the Public Health Agency of Canada should use public health threat assessments to set objectives and priorities for its national surveillance activities.

The Public Health Agency's response. Agreed. The Agency is assessing, on a daily basis, public health risks to Canadians posed by existing and emerging infectious diseases, which are recorded in its Daily Intelligence Report. The Agency has written its Surveillance Strategy Framework, initiated its implementation process, and is committed to complete its implementation over the next three years. This will include a formalized decision process using health threat risk assessments to address priorities and objectives. The Agency's Integrated Risk Assessment Framework will be in place by December 2009.

#### Long-standing uncertainties about roles and responsibilities still need to be resolved

5.23 The Agency is a new organization facing substantial challenges posed by the complex relationships with provinces and territories. Since surveillance is a shared set of activities, all parties need to understand each other's roles and responsibilities. We expected the Agency to have worked with its national partners to define its roles and responsibilities regarding infectious disease surveillance. The Agency has acknowledged the lack of clear roles and responsibilities at all levels. For example,

it is not clear how the Agency works with its partners to ensure that tuberculosis cases are reported using consistent definitions so that results can be compared across provinces.

- Through the new Pan-Canadian Public Health Network, the Agency has worked with its partners to define roles and responsibilities for specific aspects of infectious disease surveillance; for example, it has sought to define the reporting relationships of the various federal-provincial-territorial working groups and to place them in a coherent single structure. The Network has a mandate to promote communications among all jurisdictions and provide support during public health emergencies. Its priorities include implementing agreements on public health issues and developing joint strategies.
- One mechanism for clarifying roles and responsibilities is federal legislation. In 2002, we reported that a review then under way might lead to the introduction of federal public health legislation that would better support national health surveillance. Since then, the federal government has created the Agency and Parliament has passed the Public Health Agency of Canada Act. The Act focuses on the mechanics of setting up the new Agency. Our audit found that the legislative review being led by Health Canada is still needed and is continuing.
- We noted that the Agency does not have clear and up-to-date legislative authorities for its surveillance activities, either for routine data collection or when it needs to respond to emergency situations. The Department of Health Act currently provides legal authority for the collection, analysis, interpretation, publication, and distribution of public health information, but it does not specifically cover personal information.
- Recent changes to provincial and territorial legislation, including the adoption of privacy laws, have led some provinces and territories to question the Agency's authority to collect, use, and disclose public health information. In the absence of a decision on new legislation, for the past two years the Agency has been working on regulations to authorize it to receive public health information under the Public Health Agency of Canada Act. According to the Agency, the regulations are needed to ensure that it can help the provinces and territories prepare for and respond to public health emergencies, and that it can meet its international reporting obligations. There is no firm timetable for completing the regulations.
- **5.28** Recommendation. To help clarify its roles and responsibilities, ensure that it receives relevant and timely surveillance information,

and ensure that it has adequate legislative and regulatory authorities for the collection, use, and disclosure of public health information, the Public Health Agency should, with Health Canada, complete the legislative review and, if necessary, seek the additional authorities for the Agency to carry out surveillance.

Health Canada and the Public Health Agency's response. Agreed. The Agency and Health Canada will continue to work together to develop legislative and regulatory authorities for the collection, use, and disclosure of public health research and surveillance information.

Surveillance for diseases that may pass from animals to humans is not based on an integrated risk assessment

- 5.29 An estimated 65 to 80 percent of newly identified human diseases are zoonotic—that is, caused by pathogens that pass from animals to humans; examples are the West Nile virus and the avian influenza virus. We wanted to know whether the Agency and its partners were monitoring this key source of emerging diseases through well-coordinated and risk-based surveillance of human and animal health.
- 5.30 We did not look closely at the cooperation between the key players, but focused on how well the roles and responsibilities were defined for the main federal players—the Public Health Agency, Health Canada, and the Canadian Food Inspection Agency (CFIA). According to the CFIA, its mandate is to ensure that animal diseases transmissible to humans are controlled within animal populations and to conduct the surveillance necessary for this purpose. The CFIA has focused its surveillance on cattle and swine; and four diseases, including bovine spongiform encephalopathy ("mad cow" disease) in cattle, are regularly sampled. No regular samples are taken for avian influenza in domestic poultry; however, this disease is tracked in wild birds.
- 5.31 According to the Public Health Agency, it also has a mandate for surveillance of zoonotic diseases. We observed that the Public Health Agency is currently performing such surveillance based on its responsibilities for public health. For example, it is monitoring the ticks that carry Lyme disease by tracking tick populations and doing diagnostic testing.
- 5.32 We found that the CFIA and the Public Health Agency have not done an integrated risk assessment to determine what the risks are and then identified which agency will do which surveillance. We also found that a draft memorandum of understanding between the two agencies and Health Canada does not clarify this situation. Both agencies

acknowledge that the responsibilities for surveillance of wildlife and pets, two potentially important sources of human disease, have not been sorted out. We are concerned that federal organizations may not be tracking animal diseases capable of affecting human health in the right places at the right times.

**5.33** Recommendation. To improve their ability to anticipate and control zoonotic diseases, the Public Health Agency of Canada and the Canadian Food Inspection Agency should jointly assess the possible risks to human and animal health, clarify how the responsibilities will be divided, and act on joint surveillance objectives and priorities.

The agencies' response. Agreed. To further ensure collaboration and coordination, including clarification of roles and responsibilities for issues surrounding zoonotic diseases and the potential impacts on human and animal health, the Public Health Agency, CFIA, and Health Canada are currently finalizing a Memorandum of Understanding. In addition, the Public Health Agency addresses issues related to diseases transmitted via food and water through the Foodborne and Waterborne Issue Group, a federal-provincial-territorial committee of the Public Health Network. Also, a newly established Issue Group of the Communicable Disease Expert Group has been created to deal with issues related to animal-to-human infections that are not typically transmitted through food and water. This federalprovincial-territorial committee, as well as forums such as the annual National West Nile Virus and Other Non-Enteric Zoonotic Diseases meetings, provides the Public Health Agency a platform for discussion with stakeholders and the CFIA.

CFIA and the Public Health Agency will implement a risk assessment by spring 2009 and enhancements will be made to the surveillance zoonotic alert module.

#### **Existing infectious diseases**

5.34 Surveillance makes it possible to detect the threats from infectious diseases and take action to reduce the impacts on Canadians' health and the economy. We expected the Public Health Agency of Canada, working with its partners, to obtain, analyze, and disseminate the information needed to take such action.

#### Long-standing issues constrain the Agency's surveillance activities

**5.35** Few agreements with the provinces and territories. The Agency relies on the provinces and territories to voluntarily send useful and complete data, but this is not always done. For example, when Ontario and Quebec send positive HIV test results, they do not indicate the

ethnicity or country of origin of the persons testing positive, as requested by the Agency. While people from countries where HIV is endemic make up only about 2 percent of the Canadian population, they represented about 16 percent of all new cases in Canada in 2005. Without this information, it is difficult for the Agency to fully describe the HIV situation and target actions appropriately.

- data-sharing agreements with the provinces and territories; however, its surveillance activities still depend on a small number of disease-specific agreements and sometimes on verbal commitments. Although the Agency has been able to obtain information in most cases, the flow of information has been interrupted at times. For example, beginning in 2005, Ontario stopped supplying the Agency with routine data on individual cases until the province and the federal government had a legal agreement consistent with Ontario's privacy laws (The province did agree to supply more detailed information in response to emergency requests from the Agency). We were told of several other situations where the Agency had not received the data it needed on specific diseases.
- 5.37 After two years of negotiation, the Agency signed a comprehensive information-sharing agreement with Ontario in September 2007. This was an important accomplishment because the flow of regular detailed information was re-established. Moreover, the Agency is optimistic that the comprehensive agreement with Ontario can be adapted to provide the basis for agreements with other provinces and territories. However, it took considerable time and effort to reach this agreement. We are concerned that a nationally standardized approach to disease reporting remains years away.
- **5.38** In 1999 and 2002, we recommended that Health Canada work with the provinces and territories to establish information-sharing agreements. The Department agreed to do so, but did not say when it would complete this. In our view, the progress on these recommendations has not been satisfactory.
- **5.39** Recommendation. The Public Health Agency of Canada should establish data-sharing agreements to ensure that it receives timely, complete, and accurate surveillance information from all provinces and territories. In collaboration with its partners, the Agency should set timelines for putting these agreements in place.

The Public Health Agency's response. Agreed. The Agency recognizes the importance of sharing data in a timely, complete, and

accurate fashion. Over the last three years, the Agency has worked with provinces and territories to put in place data-sharing agreements. It also participated in a number of provincial and territorial forums to address issues of surveillance information, such as the Public Health Network and the Committee of Chief Medical Officers of Health.

Furthermore, the Agency is in the process of developing a Privacy Framework for the management of privacy issues, such as record information sharing and managed information sharing agreements, with an expected completion date of March 2009. During the 2008–09 fiscal year, the Agency will continue its partnership work with provinces and territories on information sharing and complete the portion of data-sharing agreements that is under its jurisdiction, while engaging provincial and territorial partners to complete their respective portions.

5.40 Comprehensive surveillance standards still to be finalized. Surveillance standards ensure that infectious disease occurrences are defined, reported, and recorded uniformly across the country. They are essential for detecting outbreaks quickly and accurately, describing national trends reliably, and planning and evaluating control measures consistently. Surveillance standards can specify

- the infectious diseases that should be reported,
- the definitions to be used,
- the information to be provided for each case,
- timelines for reporting the information,
- the method for submitting the information, and
- the parties required to submit reports.

differing sets of symptoms or diagnostic tests. This makes it difficult to compare findings for certain diseases across jurisdictions and increases the workload at the federal level in trying to resolve inconsistencies. An Agency report described one instance in which differences in reporting requirements might explain inconsistent national results that showed a much higher incidence of *Haemophilus influenzae* type b (a bacterium that can cause respiratory infections and meningitis) in one province than in its neighbours. Since 2002, the Agency has worked with the provinces and territories to prepare the updated list of nationally notifiable diseases mentioned above. The list appeared in 2006, but the accompanying standards for data formats, definition of cases of an infectious disease, data submission guidelines, and laboratory diagnostic tests have not been finalized.

- 5.42 In 2002, we recommended that Health Canada work with the provinces and territories to establish common standards, and it agreed to do so. Work is under way on these standards, but in our view, the progress on this recommendation has been unsatisfactory.
- **5.43** Recommendation. The Public Health Agency of Canada should work with its partners to implement agreed-on standards for the data it receives from provinces and territories. Steps should include finalizing agreements with all provinces and territories on the data to be provided for each infectious disease.

The Public Health Agency's response. Agreed. The standards for notifiable diseases were agreed to and signed by one province as of September 2007. The Agency will continue working toward finalizing more of these data-sharing agreements with provinces and territories. Additionally, the revised case definitions for notifiable diseases will be finalized and published by December 2009.

- 5.44 No framework to ensure data quality. Organizations such as Statistics Canada regularly work with data provided by other parties. They use data quality frameworks, which include clear and consistent criteria and tests, in order to judge and document the quality of the data they use.
- 5.45 In 2002, Health Canada undertook to implement a data quality framework for its public health data in response to one of our recommendations. Progress was very limited until 2007, when the Agency began three pilot projects to assess how a data quality framework might be used. For the one pilot project examining surveillance of an infectious disease, the project report noted that less than half of the applicable data quality criteria were met. We conclude that progress on our 2002 recommendation has been unsatisfactory. One consequence is that the Agency does not have a consistent basis for comparing data quality between different surveillance systems and reports, and deciding where it should focus its efforts for improvement.
- **5.46** Recommendation. To ensure adequate data quality to support public health actions, the Public Health Agency of Canada should put in place the necessary procedures for assessing and documenting its data quality, and should work with its partners to address deficiencies.

The Public Health Agency's response. Agreed. The Agency has been working and will continue its work to formalize the data quality checks that it has already undertaken. A data quality process has been piloted within the Agency and is expected to be completed by March 2009. As outlined in the Surveillance Strategy Framework, the Agency will

Enteric diseases—Bacterial and viral infections of the gastrointestinal tract.
The enteric pathogens cause disease symptoms ranging from mild gastroenteritis to life-threatening systemic infections and severe dehydrating diarrhea.

continue to strengthen its existing activities to formalize procedures internally, and will work with partners to address any deficiencies that become apparent.

- 5.47 Continuing weaknesses in evaluations. Also essential to effective surveillance are evaluations and performance measures for ensuring that systems do what they are supposed to do. For example, a recent evaluation of a surveillance system for enteric diseases recommended streamlining the set of reports produced by the Agency. The Agency could also use this evaluation information to report publicly on the effectiveness of its surveillance programs. However, we found that few evaluations were performed for infectious disease surveillance.
- 5.48 Certain surveillance systems have performance measures, but the Agency has yet to develop and implement a comprehensive approach and method for consistently measuring performance—one that also includes targets. The Agency recently restated the need to resolve this long-standing issue. It is a matter that requires sustained attention from management.
- 5.49 In 1999, we noted that Health Canada had completed few evaluations and had no formal plan to evaluate its surveillance systems. In 2002, we found that Health Canada was still developing its performance measures and that reports to Parliament remained inadequate. We expected that the Agency would now have implemented procedures for measuring the effectiveness of its surveillance systems, for instance, by using a framework similar to that developed by the Centers for Disease Control and Prevention in the United States. We also expected the Agency would have reported the results publicly. In our opinion, progress has been unsatisfactory on these recommendations.
- **5.50** Recommendation. The Public Health Agency of Canada should periodically evaluate its surveillance systems to ensure that they are working as intended, and it should report the results publicly.
- The Public Health Agency's response. Agreed. During the 2008–09 fiscal year, the Agency will finalize and implement the existing Evaluation Framework for Surveillance Systems throughout the organization. This Framework will be used to perform regular evaluations of surveillance systems.
- **5.51 Recommendation.** To regularly measure the performance of its surveillance systems, the Public Health Agency of Canada should establish indicators with targets and report the results against those targets.

The Public Health Agency's response. Agreed. In conjunction with current work being done on revising and detailing its Strategic Outcome and Program Activities, the Agency will work to establish required indicators and subsequent reporting in the 2009–10 fiscal year.

For four infectious diseases, the Agency is producing reports, but some weaknesses remain

- **5.52** Given the long-standing weaknesses we have noted, the Agency faces significant obstacles in obtaining and reporting surveillance information. To understand the practical consequences of the weaknesses and the extent to which the Agency has overcome the obstacles, we focused on surveillance of four important infectious diseases: infections caused by HIV, *E. coli*, the West Nile virus, and the influenza virus. Our observations on these do not apply to other diseases.
- know how well the Agency's reports and analyses were meeting the needs of public health officials in Canada and other users. With the exception of *E. coli*, we found that the Agency had not determined how well its reports and analyses supplied the information required for anticipating, preventing, and responding to public health threats. The Agency identifies incremental improvements through internal discussions and meetings with its federal, provincial, and territorial partners. We observed, however, that the needs of the users have not been systematically assessed and documented, nor has the extent to which the Agency's analyses and reports have met those needs. In 1999, we recommended that Health Canada properly assess user needs. In our view, progress on this recommendation has not been satisfactory.
- **5.54** Recommendation. To ensure that its surveillance systems for HIV, the West Nile virus, and the influenza virus are best meeting the needs of the users, the Public Health Agency of Canada should systematically assess and document the user needs.

The Public Health Agency's response. Agreed. The Agency will implement a user needs assessment program for surveillance systems by December 2008.

5.55 Steps taken to address under-reporting. To make well-informed, timely decisions, the Agency and its partners need to be able to rely on the information it produces. In turn, the information needs to be based on complete, accurate, and timely data.

- Organizations that collect health surveillance information have challenges obtaining complete data, in part because of under-reporting. The Agency has little influence over some of the factors that may contribute to the problem. For example, the Agency reported that health care providers who treat patients and laboratories that process clinical samples may not report the illnesses within their jurisdictions.
- 5.57 If reporting rates vary among different data providers, it is difficult for the Agency to determine which regions of the country are most affected. And if reporting rates vary from year to year, trend estimates may not be accurate. For example, the Agency's FluWatch program uses a network of physicians to track the number of patients with symptoms similar to influenza every week, but reporting rates are much lower from one province than from other provinces. This means that there may be delays identifying an outbreak and that it is difficult to determine if the outbreak is more severe in one province than in another.
- The Public Health Agency has acknowledged the need to improve reporting rates and consistency among data providers. In our view, under-reporting will always require attention and the Agency needs to continue to improve the consistency of reporting from different provinces and territories, and to document the impacts on its surveillance results. We found that the Agency has taken concrete measures to address the issues of reporting rates and consistency in data. It has produced national estimates of the extent of under-reporting for influenza, HIV and E. coli infections for selected years. Users of the Agency's reports need such information to interpret the surveillance results.
- Mixed success promoting accuracy. We found that the Agency has had mixed success with steps it has taken to ensure that the data it receives is accurate. For laboratory-based data, it has worked closely with provincial laboratories to ensure uniformity in testing and reporting. For other data sources, procedures include logic checks, such as flagging cases where an individual's date of birth is recorded as occurring after the date of diagnosis of an infectious disease. However, the Agency does not use a consistent set of procedures for verifying that it receives information as required and documenting the results. A data quality framework would include such checks and could be part of information-sharing agreements with the provinces and territories.
- Steps taken to provide timely information. How soon public health officials find out about a disease outbreak affects how quickly they respond and how successful they can be in controlling it. Timeliness in responding to an outbreak depends on the interval between the time a

person is first seen by a health care provider and the time a report on the event is produced. The Agency can directly control only the time from when it receives information or specimens to when it produces its reports; the first steps are largely beyond its scope.

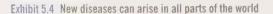
- 5.61 We found that the Agency has designed its surveillance activities to match the speed with which different diseases spread. For example, the Agency produces weekly reports on West Nile virus, influenza, and *E. coli* cases. For influenza and *E. coli*, it has set target times for the analyses it needs to perform and generally respects them. For some of the information we examined, however, we found that the Agency has not worked with its partners to review how long the different stages in the flow of information are taking, what the acceptable total times are, and what that means in terms of target times for the steps the Agency manages. A needs assessment could spell out these expectations for timeliness of information in more detail (see recommendation 5.54).
- Some analyses and reports linked to public health action. The Agency produces a diverse set of analyses and reports based on its surveillance data, including online databases, maps, newsletters, annual reports, and research studies. Some outputs have directly supported public health actions. For example, Agency analysis of the genetic characteristics of food-borne pathogens has helped pinpoint clusters of related cases, resulting in food recalls. The surveillance of influenza strains circulating in Canada led to the detection of increased resistance to an antiviral drug, which, in turn, led to changes in prescription practices. Surveillance results have also contributed to policy decisions. For example, the Federal/Provincial/Territorial Advisory Committee on AIDS used evidence from HIV surveillance and analyses of how many people were affected to determine that harm reduction measures such as safe injection sites and clean needles were effective in reducing the spread of the disease among injection drug users and their partners.
- **5.63** Given that most public health actions are taken at provincial, territorial, and local levels, and given that the Agency has not documented what needs it is trying to meet with its surveillance systems for these four infectious diseases, we could not determine how useful its suite of analyses and reports was in anticipating, preventing, and responding to threats of infectious diseases.

#### **Emerging infectious diseases**

- 5.64 The Public Health Agency of Canada must respond as some infectious diseases fade and others erupt. Threats may come from diseases never before seen in Canada, such as SARS in 2003 (Exhibit 5.4). These diseases can originate inside or outside Canada. Threats may also come from strains of existing infectious diseases that have acquired new and dangerous properties, such as drug resistance; an example is tuberculosis. Other infectious diseases that had been virtually eliminated from Canada through vaccination programs may re-emerge if immunity levels fall; an example is mumps.
- **5.65** We expected the Agency to be able to detect and then monitor emerging infectious diseases, and to communicate the information to its partners. Detection means that the Agency finds out about one or more cases of a new infectious disease; monitoring means obtaining detailed and systematic information about the cases and how the disease is spreading. The Agency's capacity to do this depends on its laboratories and on its contacts with public health officials in other levels of government. For re-emerging diseases, the Agency also relies on established surveillance systems.

The Agency has the capacity to detect emerging infectious diseases, but monitoring needs to be strengthened

5.66 A network to detect infectious diseases in other countries. Beginning in 1997, Health Canada developed an innovative system to detect international public health threats. The Global Public Health





Source: U.S. Government Accountability Office (sources listed as the World Health Organization and the U.S. Centers for Disease Control)

Intelligence Network combines powerful computer search functions that continuously scan media reports from around the world in eight languages, with human analysts to filter and interpret the output. Canada, other countries, and WHO depend on this system as an essential source of information about the spread of new infectious diseases. An analysis by WHO found that during 2001 and 2002, the Network supplied about 40 percent of WHO's early warning outbreak information. The development of this system was a major accomplishment for Canada.

infectious diseases and new strains of existing diseases. The Agency is able to detect an infectious disease new to Canada when provincial or territorial health officials send a specimen containing the pathogen to the national laboratories for analysis. The laboratories have a strong analytical and research capacity, and their reference collections enable them to compare new pathogens with previously identified ones. The laboratory facilities maintain the highest level of biological security, making it possible to work with particularly dangerous pathogens such as the Ebola virus. We found that the national laboratories are working to provide services to meet the needs of their users, primarily the provincial laboratories.

5.68 The same laboratory capacity is used to detect new strains of infectious diseases in Canada. For three of the four existing infectious diseases we selected, the laboratories have systematic surveillance programs and can distinguish new strains, including those associated with drug resistance. We found, however, that the Agency was not able to estimate accurately how common the new strains were or where they were found because of gaps and delays in the supply of data by the provinces and territories. For example, only five of the provinces and territories have agreements to supply specimens to the Agency to check for new strains of HIV. This could delay the response to an outbreak involving a new strain. (See paragraphs 5.35 to 5.39 for more details on agreements with the provinces and territories.)

5.69 Surveillance systems to detect re-emerging infectious diseases. For some diseases that have the potential to re-emerge, systematic and active surveillance systems are in place—that is, the Agency and its partners are checking for possible cases. Such systems can provide baselines so officials can assess whether the number of new cases is higher than typical levels. About half of the 60 nationally notifiable diseases fall in this category.

Ebola virus.—The virus that causes Ebola hemorrhagic fever. This is a severe, often-fatal disease occurring in humans and non-human primates, such as monkeys and gorillas. It has appeared sporadically since it was identified in 1976. It is named after the Ebola River in the Democratic Republic of the Congo, where the first recognized outbreak occurred.

- 5.70 For other infectious diseases on this list that may re-emerge, the Agency could detect such diseases through the procedures for reporting notifiable diseases. We found that the Agency has only limited assurance that it will receive the information it seeks because the provinces and territories are the jurisdictions with statutory authority to require reporting by physicians and laboratories, and because provincial and territorial lists of notifiable diseases are inconsistent with the national list.
- 5.71 Informal mechanisms to detect and monitor emerging infectious diseases. Another way for the Agency to detect new and re-emerging infectious diseases is through direct contacts with public health officials around the country, a key part of any health surveillance system. We found that these direct contacts are used to detect cases and to monitor the spread of outbreaks by obtaining and sharing additional information. However, there are risks related to the use of these mechanisms unless they are formalized:
  - It is very difficult for senior managers to determine if the mechanisms are working as they should, unless robust documentation is available for tracking phone conversations, email exchanges, and decisions taken.
  - The mechanisms may not provide all the required information in a consistent format to all the people who need to know.
  - The mechanisms may not respect protocols for storing and sharing information.
  - The mechanisms may not provide a basis for tracking an outbreak as it evolves.
  - The mechanisms may not support reliable reporting to international organizations.

The Agency needs to strengthen its internal systems for managing surveillance information. We discuss these observations further in the context of how the Agency complies with the *International Health Regulations* (paragraphs 5.83 to 5.89).

# A new system is intended to improve communication about emerging infectious diseases

5.72 To speed up the process of alerting public health officials to possible health risks from existing, re-emerging, or new infectious diseases, and to formalize communication with its partners, the Agency designed and built a Canada-wide public health alerting system. The Canadian Network for Public Health Intelligence is now in

use in all provinces and territories. It provides a way to notify other jurisdictions about relevant public health events. The Agency has used it to alert public health officials to its test results for food-borne pathogens and to international public health events, such as the spread of avian influenza. However, the Network only includes up-to-date information on a few diseases, and it does not support systematic tracking or communication of all the information needed about an outbreak. Agency officials told us they plan to strengthen both of these features.

**5.73** We conclude that the Agency has the capacity and systems to detect an emerging infectious disease, a new strain of an existing disease, or a re-emerging infectious disease. We also conclude that the informal mechanisms for detecting and monitoring these diseases need to be strengthened. This, coupled with gaps and delays in the supply of the data by the provinces and territories means that the Agency cannot always systematically analyze and report information on public health threats. The Agency is working to improve how it communicates relevant information to its partners.

## New international commitments

- 5.74 The International Health Regulations were adopted by Canada and most other countries in 2005 to control public health threats with the potential to affect other countries. Examples of infectious diseases that fall in this category are SARS and a novel human influenza virus.
- 5.75 All countries that adopted the Regulations will be obligated to report cases of an infectious disease that may constitute a public health emergency of international concern. This includes cases where infectious diseases are used as bioterrorism agents. Countries are expected to assess their capacity to meet the core surveillance and response capacity requirements by 15 June 2009, but compliance with surveillance aspects of the Regulations is not mandatory until June 2012.
- 5.76 To strengthen pandemic influenza preparedness and response, the World Health Organization called on member countries to comply immediately and voluntarily with key provisions of the Regulations. In May 2006, Canada agreed to immediately implement components of the Regulations relating to surveillance, including
  - establishing a national focal point for round-the-clock operations that can communicate with the WHO and other countries,
  - assessing all reports of urgent events within 48 hours to determine whether a potential public health emergency of international concern exists, and
  - · notifying the WHO within 24 hours of the assessment.

**5.77** We expected the Public Health Agency of Canada to have the capacity to detect, assess, notify, and report infectious diseases of international significance, as required under the new *International Health Regulations*. We also expected the Agency to honour Canada's undertaking to adopt key provisions of the Regulations early.

The Agency is making progress on respecting the *International Health Regulations*, but has not yet taken all the necessary steps

- 5.78 The Regulations contain several specific requirements for member countries, some of which will be difficult to implement for countries like Canada that operate a federal system, where the responsibilities for public health are shared and a pan-Canadian effort and commitment will be required. According to the Regulations, the different levels of government need to jointly develop, strengthen, and maintain the capacity to detect, assess, notify, and report significant public health events.
- 5.79 The Agency has taken several steps to comply with the requirements of the new *International Health Regulations*. The Agency has been designated as the national focal point in Canada for matters related to the Regulations. According to the WHO, the national focal point is a centre or office that
  - is accessible at all times;
  - can communicate information regarding public health emergencies with the WHO and other countries; and
  - can disseminate information to and consolidate input from those responsible for surveillance, such as clinics and hospitals.

The Agency is now setting up an Emergency Operations Centre that will operate continuously.

- **5.80** The Agency has also obtained general support from all of the provinces and territories for implementing the *International Health Regulations* in Canada. This support is critical to the successful implementation of these Regulations.
- 5.81 To find out where it is on the path to full implementation, the Agency has done some informal internal assessments and is now taking steps to document its internal capacity to meet the requirements. It plans to coordinate an assessment of local, provincial, and territorial capacity beginning in 2008.

5.82 More work remains to be done to ensure that the Agency can obtain the information needed to meet its international obligations (see recommendations 5.88 and 5.89).

## A proposed information-sharing agreement needs to be completed

- **5.83** Local or provincial public health officials will almost certainly be the first to detect a public health emergency of international concern, as defined by the revised Regulations. The Agency therefore relies on the provinces and territories to supply the information it needs to meet its assessment and reporting obligations to the WHO.
- the necessary information in a timely way through direct contacts with local, provincial, and territorial public health officials. An Agency working group recently documented several concerns with its current approach, such as a lack of a standard procedure for responding to public health events, a lack of records for how the Agency has responded to different public health events, and weaknesses in its contact information. Our audit has confirmed these concerns. The Agency needs to be able to provide assurance that its informal systems will function as needed to complement formal arrangements with the provinces and territories.
- 5.85 To formalize provincial and territorial cooperation, the Agency has developed an intergovernmental memorandum of understanding on sharing information during a public health emergency. (This agreement would complement the one described in paragraph 5.37 for routine and ongoing surveillance.) This memorandum requires each province or territory to notify other jurisdictions, including the federal government, when it believes that there may be a public health risk or emergency in its jurisdiction. The memorandum also calls on jurisdictions to share detailed and possibly personally identifiable information regarding the risk or emergency. As of January 2008, the memorandum was awaiting approval of federal, provincial, and territorial ministers.
- 5.86 In its current form, the memorandum is largely a statement of principle and is not sufficient to ensure a complete and timely flow of information between the Agency and the provinces and territories on public health risks and emergencies. The parties have recognized that critical aspects of the agreement still need to be worked out—for example, procedures for notifying other parties, privacy considerations, and protocols surrounding the provision of potentially sensitive public health information required by the WHO.

- 5.87 Until these arrangements have been worked out, we are concerned that the Agency may be unable to notify the WHO within the times specified in the Regulations and keep it informed of subsequent events. Reports following the SARS experience in 2003 pointed to several deficiencies in dealing with the crisis. Among these were the absence of protocols for data sharing among levels of government, uncertainties about data ownership, and inadequacies in outbreak management protocols. Although some progress has been made, these arrangements have not yet been fully defined. The Agency needs to work closely with its partners to develop the remaining elements so that the situation in 2003 is not repeated.
- **5.88** Recommendation. To ensure that it can meet its obligations under the *International Health Regulations*, the Public Health Agency of Canada should ensure that its internal systems for managing information about significant public health events are comprehensive and well-documented.

The Public Health Agency's response. Agreed. In the 2008–09 and 2009–10 fiscal years, the Agency will formalize comprehensive and well-documented internal systems for managing information during a significant public health event. This will be accomplished through strengthening existing daily briefings of executive management and responsible officers of data systems, laboratories, and relevant surveillance systems.

**5.89** Recommendation. To ensure that it can meet its obligations under the *International Health Regulations*, the Public Health Agency of Canada should work with its partners to establish an action plan with clear and realistic deadlines for implementing the memorandum of understanding on the sharing of information during a public health emergency.

The Public Health Agency's response. Agreed. The Agency continues to work on a comprehensive plan to ensure that it meets its obligations under the *International Health Regulations*. This includes finalizing the Memorandum of Understanding on Information Sharing during a Public Health Emergency developed by the Public Health Network's Surveillance and Information Expert Group, and, during the 2008–09 fiscal year, supporting and participating in the collaborative action plan for its implementation.

Also, as required by the World Health Organization, the Agency will work with partners to develop a comprehensive action plan by

December 2009 that will outline how Canada intends to meet its obligations under the Regulations.

The Agency believes that Canada's public health systems are in a much better position than in 2003 to deal with an infectious disease threat of national importance. For example, the agreements that have been concluded between the Agency and its partners since 2004 and the experience of events that have occurred since SARS demonstrate the ability of the Agency and its partners nationally and internationally to address public health threats effectively.

- 5.90 Privacy considerations still unresolved. The Agency needs to demonstrate that it complies with privacy laws. A recent report prepared for the Agency highlighted the need for it to conduct a privacy impact assessment to assure its senior management and provincial and territorial partners that it could properly protect confidential information in the event of a public health emergency. This kind of assessment is a Treasury Board Secretariat policy requirement. We found that the Agency is slowly taking steps to prepare this assessment.
- **5.91** Recommendation. To comply with Treasury Board Secretariat requirements and aid negotiations with the provinces and territories, the Public Health Agency of Canada should take steps to complete a privacy impact assessment that covers the information-sharing requirements outlined in the memorandum of understanding on the sharing of information during a public health emergency.

The Public Health Agency's response. Agreed. In the coming year, the Agency plans to develop and perform privacy impact assessments in compliance with Treasury Board Secretariat policies. The Agency is committed to protecting the privacy of Canadians, and will continue to work with provinces and territories to assess and manage the privacy implications of all types of information shared in the context of public health.

# Progress on past recommendations

## Progress on past recommendations has been unsatisfactory

- **5.92** We examined health surveillance in 1999 and 2002, and made recommendations in several areas, including with regard to infectious diseases. For this audit, we expected to find satisfactory progress on the recommendations we selected. We have commented earlier on the progress so far.
- **5.93** We recognize that there were competing demands associated with launching a new organization, but we are nonetheless

concerned about the overall lack of progress on our past recommendations. For some recommendations, the chief obstacle seems to have been difficulty in coordinating action with the provinces and territories. For others, progress seems to have been blocked mainly by a failure to apply certain management principles, such as setting priorities, tracking performance, and periodically evaluating progress.

**5.94** Our past recommendations came before the 2003 SARS outbreak, but that event highlighted the importance of the concerns we raised. In our view, the Public Health Agency of Canada needs to remedy the weaknesses in surveillance to lessen the potential impact of similar crises.

## Conclusion

- 5.95 The Public Health Agency of Canada has been in operation for over three years. Although some work is under way, it has not yet clearly defined its roles and responsibilities with respect to the surveillance of infectious diseases. The Agency has also not yet set objectives and priorities for the surveillance of infectious diseases, but has taken initial steps to do so. The Agency has been considering the need for legislative and regulatory measures to clarify its authority to collect and manage surveillance information, but these changes have not yet been made.
- 5.96 Given that 65 to 80 percent of newly identified human diseases come from animals, it is important that these health risks to Canadians be well managed. The Public Health Agency and the Canadian Food Inspection Agency have not done a systematic analysis of the risks to human health to justify the selection of the diseases to be monitored. The two agencies also need to resolve the division of responsibilities for surveillance of diseases in animals that could affect people.
- 5.97 We selected four infectious diseases for in-depth analysis and concluded that the Agency is obtaining, analyzing, and reporting information on these public health threats. Even though the Agency is struggling with the completeness, timeliness, and accuracy of the information provided by its partners, it carries out analyses and disseminates reports that support public health action. However, several fundamental weaknesses remain. The Agency relies on the goodwill of the provinces and territories to supply the needed information and this flow has sometimes been interrupted. For its part, the Agency has not done enough to assess and document the information needs of users, to establish common surveillance

standards, to implement a data quality framework, to evaluate its surveillance systems, and to obtain data-sharing agreements with the provinces and territories.

- 5.98 For emerging infectious diseases, the Agency uses an internationally recognized system for monitoring diseases that may arrive in Canada from other countries. For infectious diseases in Canada, the Agency has a strong laboratory capacity that provides a base for detecting and describing new diseases. However, largely because of gaps and delays in the data supplied by its partners and because of weaknesses in its informal data sharing methods, the Agency may not be able to systematically analyze and report information on public health threats. It is working to improve how it communicates relevant information to its partners.
- 5.99 Given heightened concerns about new outbreaks, the World Health Organization passed new *International Health Regulations* to prevent the spread of infectious diseases. In May 2006, the federal government committed to implement parts of the Regulations. The Agency has made progress, but has not yet taken all the necessary steps to meet these commitments. In the event of a public health emergency, the Agency runs the risk of not obtaining the information needed to do an assessment of the situation within 48 hours, to notify the WHO within 24 hours, and to keep it informed of subsequent events, as required, because information-sharing agreements with the provinces and territories are missing.
- **5.100** We selected several recommendations relevant to the surveillance of infectious diseases from our 1999 and 2002 reports. All of them are still unresolved even though Health Canada agreed to act on them. We conclude that the Agency has not achieved satisfactory progress in addressing these recommendations.
- **5.101** Given that the threats from infectious diseases are rising, Canadians expect the Agency to ensure that it is adequately monitoring important public health events to minimize the potential risks to their health and the economy. Despite some important accomplishments, the Agency has not satisfactorily addressed many of the concerns raised in our previous audits, some of which were evident during the SARS crisis. It is imperative that the Agency address these long-standing issues and complete the initiatives it has started in order to fulfill its responsibilities under the *International Health Regulations*.

## **About the Audit**

## **Objectives**

The objectives of this audit were to determine whether the Public Health Agency of Canada has

- set objectives and priorities for surveillance based on the public health threats of infectious diseases in Canada;
- in collaboration with its partners, defined its roles and responsibilities with respect to the surveillance of infectious diseases in Canada;
- in collaboration with its partners, obtained, analyzed, and reported information on public health threats from selected existing infectious diseases as well as emerging ones, in accordance with its objectives and priorities;
- taken the necessary steps to comply with requirements of the *International Health Regulations* related to infectious disease surveillance; and
- made satisfactory progress in addressing recommendations from our 1999 and 2002 reports concerning the surveillance of infectious diseases.

## Scope and approach

Within the Public Health Agency, the Infectious Disease and Emergency Preparedness Branch manages most of the federal activities related to the surveillance of infectious diseases. Our work focused on the Centre for Infectious Disease Prevention and Control, the Centre for Emergency Preparedness and Response, the National Microbiology Laboratory, the National HIV and Retrovirology Laboratories, and the Laboratory for Foodborne Zoonoses. We also examined some activities in the Public Health Practice and Regional Operations Branch.

We carried out audit work at the Canadian Food Inspection Agency to assess the coordination between the two agencies for surveillance of animal diseases that are transmissible to humans.

We examined surveillance systems designed to collect, analyze, and disseminate information on existing and emerging public health threats. The audit focused exclusively on the surveillance of infectious diseases. We did not audit surveillance of chronic diseases or injuries, nor did we audit activities related to emergency preparedness or the management of outbreaks.

For detailed audit work, we selected infectious diseases caused by four pathogens:

- the human immunodeficiency virus (HIV),
- verotoxigenic strains of the Escherichia coli (E. coli) bacterium,
- West Nile virus, and
- · the influenza virus.

We selected these from a recent ranking by public health experts of the diseases with the highest priority for national reporting. We chose diseases for which the Agency had established surveillance systems. We also examined emerging infectious diseases for which surveillance systems are not yet in place.

We collected evidence through interviews with key personnel and external stakeholders, review of relevant documents, examination of the selected surveillance systems and their outputs, and site visits to the national laboratories.

#### Criteria

We expected to find the following with regard to the Public Health Agency of Canada:

- The Agency has developed its objectives and priorities for the surveillance of infectious diseases.
- The Agency has assessed the threats of infectious diseases, and used the assessment to set its objectives and priorities.
- The Agency has worked with its national partners to define its roles and responsibilities in the surveillance of infectious diseases.
- In collaboration with its partners, the Agency has obtained, analyzed, and disseminated the information needed to help anticipate, prevent, and respond to threats of existing infectious diseases.
- The Agency has the capacity to detect and monitor emerging infectious diseases and communicate the information to its partners.
- The Agency has measured the effectiveness of its surveillance systems and reported the results.
- The Agency has the capacity to detect, assess, notify, and report infectious diseases of international concern, as required under the *International Health Regulations*.
- Satisfactory progress has been made on addressing the recommendations from our 1999 and 2002 reports concerning the surveillance of infectious diseases.

## Audit work completed

Audit work for this chapter was substantially completed on 19 October 2007.

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## **Appendix** List of recommendations

The following is a list of recommendations found in Chapter 5. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

#### Response Recommendation Strategic directions The Public Health Agency's response. Agreed. The Agency is **5.22** To ensure effective management assessing, on a daily basis, public health risks to Canadians posed of risks posed by existing and emerging by existing and emerging infectious diseases, which are recorded infectious diseases, the Public Health Agency of Canada should use public in its Daily Intelligence Report. The Agency has written its Surveillance Strategy Framework, initiated its implementation health threat assessments to set process, and is committed to complete its implementation over objectives and priorities for its national the next three years. This will include a formalized decision surveillance activities. process using health threat risk assessments to address priorities (5.15-5.21)and objectives. The Agency's Integrated Risk Assessment Framework will be in place by December 2009. Health Canada and the Public Health Agency's response. 5.28 To help clarify its roles and Agreed. The Agency and Health Canada will continue to work responsibilities, ensure that it receives together to develop legislative and regulatory authorities for the relevant and timely surveillance collection, use, and disclosure of public health research and information, and ensure that it has adequate legislative and regulatory surveillance information. authorities for the collection, use, and disclosure of public health information, the Public Health Agency of Canada should, with Health Canada, complete the legislative review and, if necessary, should seek the additional authorities for the Agency to carry out surveillance. (5.23-5.27)

#### Recommendation

5.33 To improve their ability to anticipate and control zoonotic diseases, the Public Health Agency of Canada and the Canadian Food Inspection Agency should jointly assess the possible risks to human and animal health, clarify how the responsibilities will be divided, and act on joint surveillance objectives and priorities. (5.29–5.32)

## Response

The agencies' response. Agreed. To further ensure collaboration and coordination, including clarification of roles and responsibilities for issues surrounding zoonotic diseases and the potential impacts on human and animal health, the Public Health Agency, CFIA, and Health Canada are currently finalizing a Memorandum of Understanding. In addition, the Public Health Agency addresses issues related to diseases transmitted via food and water through the Foodborne and Waterborne Issue Group, a federal-provincial-territorial committee of the Public Health Network. Also, a newly established Issue Group of the Communicable Disease Expert Group has been created to deal with issues related to animal-tohuman infections that are not typically transmitted through food and water. This federal-provincial-territorial committee, as well as forums such as the annual National West Nile Virus and Other Non-Enteric Zoonotic Diseases meetings, provides the Public Health Agency a platform for discussion with stakeholders and the CFIA.

CFIA and the Public Health Agency will implement a risk assessment by spring 2009 and enhancements will be made to the surveillance zoonotic alert module.

## **Existing infectious diseases**

5.39 The Public Health Agency of Canada should establish data-sharing agreements to ensure that it receives timely, complete, and accurate surveillance information from all provinces and territories. In collaboration with its partners, the Agency should set timelines for putting these agreements in place.

(5.34–5.38)

The Public Health Agency's response. Agreed. The Agency recognizes the importance of sharing data in a timely, complete, and accurate fashion. Over the last three years, the Agency has worked with provinces and territories to put in place datasharing agreements. It also participated in a number of provincial and territorial forums to address issues of surveillance information, such as the Public Health Network and the Committee of Chief Medical Officers of Health.

Furthermore, the Agency is in the process of developing a Privacy Framework for the management of privacy issues, such as record information sharing and managed information sharing agreements, with an expected completion date of March 2009. During the 2008–09 fiscal year, the Agency will continue its partnership work with provinces and territories on information sharing and complete the portion of data-sharing agreements that is under its jurisdiction, while engaging provincial and territorial partners to complete their respective portions.

#### Recommendation

# 5.43 The Public Health Agency of Canada should work with its partners to implement agreed-on standards for the data it receives from provinces and territories. Steps should include finalizing agreements with all provinces and territories on the data to be provided for each infectious disease. (5.40–5.42)

- **5.46** To ensure adequate data quality to support public health actions, the Public Health Agency of Canada should put in place the necessary procedures for assessing and documenting its data quality, and should work with its partners to address deficiencies. **(5.44–5.45)**
- 5.50 The Public Health Agency of Canada should periodically evaluate its surveillance systems to ensure that they are working as intended, and it should report the results publicly. (5.47–5.49)
- **5.51** To regularly measure the performance of its surveillance systems, the Public Health Agency of Canada should establish indicators with targets and report the results against those targets. (5.47–5.49)
- 5.54 To ensure that its surveillance systems for HIV, the West Nile virus, and the influenza virus are best meeting the needs of the users, the Public Health Agency of Canada should systematically assess and document the user needs.

  (5.52–5.53)

## Response

Agreed. The standards for notifiable diseases were agreed to and signed by one province as of September 2007. The Agency will continue working toward finalizing more of these data-sharing agreements with provinces and territories. Additionally, the revised case definitions for notifiable diseases will be finalized and published by December 2009.

Agreed. The Agency has been working and will continue its work to formalize the data quality checks that it has already undertaken. A data quality process has been piloted within the Agency and is expected to be completed by March 2009. As outlined in the Surveillance Strategy Framework, the Agency will continue to strengthen its existing activities to formalize procedures internally, and will work with partners to address any deficiencies that become apparent.

Agreed. During the 2008–09 fiscal year, the Agency will finalize and implement the existing Evaluation Framework for Surveillance Systems throughout the organization. This Framework will be used to perform regular evaluations of surveillance systems.

Agreed. In conjunction with current work being done on revising and detailing its Strategic Outcome and Program Activities, the Agency will work to establish required indicators and subsequent reporting in the 2009–10 fiscal year.

Agreed. The Agency will implement a user needs assessment program for surveillance systems by December 2008.

#### Recommendation

## Response

## New international commitments

5.88 To ensure that it can meet its obligations under the *International Health Regulations*, the Public Health Agency of Canada should ensure that its internal systems for managing information about significant public health events are comprehensive and well-documented. (5.74–5.87)

Agreed. In the 2008–09 and 2009–10 fiscal years, the Agency will formalize comprehensive and well-documented internal systems for managing information during a significant public health event. This will be accomplished through strengthening existing daily briefings of executive management, and responsible officers of data systems laboratories, and relevant surveillance systems.

5.89 To ensure that it can meet its obligations under the *International Health Regulations*, the Public Health Agency of Canada should work with its partners to establish an action plan with clear and realistic deadlines for implementing the memorandum of understanding on the sharing of information during a public health emergency. (5.74–5.87)

Agreed. The Agency continues to work on a comprehensive plan to ensure that it meets its obligations under the *International Health Regulations*. This includes finalizing the Memorandum of Understanding on Information Sharing during a Public Health Emergency developed by the Public Health Network's Surveillance and Information Expert Group, and, during the 2008–09 fiscal year, supporting and participating in the collaborative action plan for its implementation.

Also, as required by the World Health Organization, the Agency will work with partners to develop a comprehensive action plan by December 2009 that will outline how Canada intends to meet its obligations under the Regulations.

The Agency believes that Canada's public health systems are in a much better position than in 2003 to deal with an infectious disease threat of national importance. For example, the agreements that have been concluded between the Agency and its partners since 2004 and the experience of events that have occurred since SARS demonstrate the ability of the Agency and its partners nationally and internationally to address public health threats effectively.

5.91 To comply with Treasury Board Secretariat requirements and aid negotiations with the provinces and territories, the Public Health Agency of Canada should take steps to complete a privacy impact assessment that covers the information-sharing requirements outlined in the memorandum of understanding on the sharing of information during a public health emergency. (5.90)

Agreed. In the coming year, the Agency plans to develop and perform privacy impact assessments in compliance with Treasury Board Secretariat policies. The Agency is committed to protecting the privacy of Canadians, and will continue to work with provinces and territories to assess and manage the privacy implications of all types of information shared in the context of public health.



## Report of the Auditor General of Canada to the House of Commons—May 2008

A Message from the Auditor General of Canada

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Report of the
Auditor General
of Canada
to the House of Commons

MAY

Chapter 6
Conservation of Federal Official Residences



Office of the Auditor General of Canada

The May 2008 Report of the Auditor General of Canada comprises A Message from the Auditor General of Canada, Main Points—Chapters 1 to 8, and eight chapters. The main table of contents for the Report is found at the end of this publication.

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## Chapter

6

Conservation of Federal Official Residences

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by The Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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## Conservation of Federal Official Residences

## **Main Points**

## What we examined

The federal government provides official residences to the Governor General, the Prime Minister, the Leader of the Opposition, the Speaker of the House of Commons, and foreign dignitaries visiting Canada. The National Capital Commission (NCC) owns and manages the six official residences located in Ottawa-Gatineau, and Public Works and Government Services Canada manages the Governor General's secondary residence, La Citadelle, in Québec City.

We examined the management practices that the NCC and Public Works and Government Services Canada have adopted to ensure the conservation of the official residences.

This audit was conducted at the same time as our special examination of the NCC in 2007. Most Crown corporations are subject to a special examination, which is a type of performance audit, every five years. The NCC posted our special examination Report on its website in November 2007.

## Why it's important

The official residences are more than just housing for Canada's top political leaders; they are part of Canada's heritage, and as such, they belong to all Canadians. They contribute to Canada's positive image abroad and are often a source of pride for Canadians who visit them. This is particularly true for the Governor General's residence, Rideau Hall, which was designated a national historic site in 1977. The official residences are used to fulfill official functions, such as welcoming foreign dignitaries and holding commemorative ceremonies and high-level work sessions. These require reception facilities and hospitality services on a scale not usually found in conventional homes. It is therefore important that they be equipped accordingly with, for example, modern and efficient means of communication, access for persons with reduced mobility, and specialized kitchen services.

## What we found

• The NCC has implemented sound management practices to ensure that the official residences are conserved. It regularly assesses the condition of the official residences and develops rehabilitation

- programs based on these assessments. The Commission keeps the occupants of the official residences informed of the condition of their residence and of the work that will be required to conserve it.
- Based on NCC information, Rideau Hall and the Prime Minister's residence (24 Sussex Drive) are showing signs of fatigue and wear. At Rideau Hall, the roof, windows, walls, and foundations—more than two thirds of the exterior of the residence—are in only fair condition and need repair.
- The NCC believes that rehabilitating the Prime Minister's residence
  has become an urgent matter. It expects the work to take 12 to
  15 months, if there are no unexpected complications. However, this
  will be possible only if the NCC has prolonged access to the
  residence to complete the needed work.
- The funding that the NCC received in 2005 enabled it to do a great deal of work on Rideau Hall and to improve the condition of the four other residences in the National Capital Region. Despite these improvements, the condition of many elements of these official residences is still only fair, and these residences need to be repaired in the next few years.
- Public Works and Government Services Canada uses sound management practices, such as a preventative maintenance program, to ensure the conservation of the residence at La Citadelle in Québec City.

## Introduction

#### Functions of official residences

- 6.1 The federal government provides official residences to the Governor General, the Prime Minister, the Leader of the Opposition and the Speaker of the House of Commons. The government also owns and manages one official residence for foreign dignitaries visiting Canada. The following residences are provided to ensure that public figures have appropriate homes in which they can fulfill many of their official functions:
  - Rideau Hall, principal residence of the Governor General of Canada;
  - La Citadelle, the Governor General's secondary residence in Québec City;
  - 24 Sussex Drive, residence of the Prime Minister of Canada;
  - Harrington Lake (Lac Mousseau), secondary residence of the Prime Minister of Canada;
  - Stornoway, residence of the Leader of the Opposition party in the House of Commons;
  - The Farm (Kingsmere), residence of the Speaker of the House of Commons; and
  - 7 Rideau Gate, residence for official visitors to Canada.

More information on each of these residences is provided in Exhibit 6.1.

- conventional home is the functions assigned to it. An official residence provides its occupant with more than just a place to live; it also allows its occupant to fulfill official functions, such as welcoming foreign dignitaries, and holding commemorative ceremonies and high-level working meetings. Rideau Hall and the La Citadelle residence are also used for public receptions. These functions require reception facilities and hospitality services not normally found in conventional homes. For example, accommodating people with reduced mobility may require universal access facilities. Holding high-level working meetings may require advanced communications technologies. Hosting state dinners may require specialized kitchen services.
- **6.3** The official residences are part of Canada's heritage. Rideau Hall has been a national historic site since 1977, and the other official

Conservation—All actions or processes (maintenance, repairs, renovation, rehabilitation) designed to safeguard the character-defining elements of a cultural tesource so as to retain its heritage value and extend its physical life.

residences are designated federal heritage buildings. As such, these buildings recall the lives and history of the men and women who built this country, illustrate the development of Canadian society, and help foster Canadians' sense of belonging to their country. Conservation of official residences also helps preserve the environment. Improvements to existing structures reduce the consumption of resources.

#### Exhibit 6.1 Brief description of the official residences of the federal government

#### Rideau Hall, Residence of the Governor General of Canada

Rideau Hall, which is a 32-hectare estate, includes the Governor General's residence, 27 buildings, and six greenhouses. The estate of Rideau Hall houses the Office of the Secretary of the Governor General, as well as offices for the Royal Canadian Mounted Police, the National Capital Commission, Public Works and Government Services Canada, and the Governor General's Foot Guards. Rideau Hall is open to the public year-round and hosts various events, ceremonies, and state visits. About 150,000 members of the public visit Rideau Hall each year. The first Governor General of Canada moved in as a tenant when Ottawa became the capital of the new province of Canada in 1857. The federal government later purchased Rideau Hall and gradually enlarged it. The residence, which was built in 1838 by a local builder, has 175 rooms spread over 9,000 square metres.

## 24 Sussex Drive, Residence of the Prime Minister

Built between 1866 and 1868, this private residence became public property in 1943. The Government of Canada had extensive renovation work done on it between 1949 and 1951 to make it an official residence. The first occupant was Louis St-Laurent. This 1,000 square-metre official residence has three storeys and 34 rooms. It is located on a two-hectare property overlooking the Ottawa River. Three other buildings are located on the grounds.

## Harrington Lake (Lac Mousseau), Secondary residence of the Prime Minister

Constructed in 1925 by a local builder, this residence covers 5.4 hectares in Gatineau Park. The Government of Canada purchased it in 1951, and it became the Prime Minister's secondary residence in 1959. In addition to the main building, nine other buildings are located on this property.

## The Farm (Kingsmere), Residence of the Speaker of the House of Commons

Built in 1891 and enlarged in the 1930s, this residence became the government's property when William L. Mackenzie King died in 1950. It has been the residence of the Speaker of the House of Commons since that time. It was designated an official residence in 1971. It is situated in Gatineau Park on a terrain, covering 1.74 hectares, that houses six other buildings.

#### Stornoway, Residence of the Leader of the Opposition

This three-storey home was built in 1914 for an Ottawa grocer. It covers 0.42 hectares in the upscale Rockcliffe Park neighbourhood in Ottawa. The Government of Canada purchased it in 1970 for leaders of the Opposition.

#### 7 Rideau Gate, Canada's official guest house

This 790-square-metre private home was built in 1862 and purchased by the government in 1966 as lodgings for visiting dignitaries who are guests of Canada, and who are attending official meetings or events held by the Department of Foreign Affairs and International Trade. The property covers 0.2 hectares near 24 Sussex Drive and Rideau Hall.

#### La Citadelle, Secondary residence of the Governor General of Canada

Québec City's La Citadelle has been the Governor General's secondary residence since 1872. It is situated on a 1.23-hectare property. The main building was erected in 1831 and was used as barracks for military officers. A fire destroyed half of the residence in 1976. Renovations were carried out by the federal government from 1976 to 1984. The Office of the Secretary to the Governor General uses these premises, and a number of national or international meetings and official ceremonies are held there. The interior of the residence is open to the public and welcomes approximately 15,000 visitors each year.

Source: National Capital Commission and Public Works and Government Services Canada

## Roles and responsibilities of organizations involved

- 6.4 The National Capital Commission, which is a federal Crown corporation, owns and manages six official residences located in the National Capital Region. Among other things, it is responsible for planning long-term capital work, for undertaking property management activities, for providing curatorial and interior-design services, and for performing maintenance of the grounds and gardens. Public Works and Government Services Canada plays the same role for La Citadelle in Québec City.
- National Capital Commission's funding requests and submits its recommendations to the Minister of Transport, Infrastructure and Communities, which has been responsible for the Commission since February 2006. The Minister's role is to establish the Commission's comprehensive strategic policies while respecting its operational autonomy. The Treasury Board of Canada Secretariat examines those of the Commission's submissions that involve official residence funding, and submits its recommendations to Treasury Board. The Privy Council Office sits, as an observer, on the Advisory Committee on the Official Residences of Canada, one of the committees of the National Capital Commission.

Advisory Committee on the Official
Residences of Canada—A committee
mandated to advise the National Capital
Commission and its Executive Committee on the
management of official residences. The
Committee is composed of specialists in
architecture, interior decoration, heritage
conservation, and property development.

## Specific challenges

- 6.6 The official residences in the National Capital Region were built, first and foremost, as private residences. None of them was built for the purpose of accommodating heads of state and political leaders. This is particularly true of Rideau Hall, which was originally an 11-room villa, and which was gradually transformed into a 175-room residence for heads of state. The official residences were not designed to support today's state functions. As a result, specific care is required to preserve their historic character, and interior retrofitting is sometimes required to make them more functional.
- 6.7 Political leaders live in the official residences, and they have numerous professional and family activities on their agendas. The National Capital Commission and Public Works and Government Services Canada must ensure they have access to the residences for sufficiently long periods of time to carry out the maintenance and rehabilitation work required for their conservation. They must therefore come to an agreement with the occupants of the official residences or their representatives as to the appropriate timing for this work.

6.8 The National Capital Commission regularly receives requests for access to information concerning the work carried out on the official residences, particularly 24 Sussex Drive. It is important that the public and the media thoroughly understand the nature and the necessity of the work carried out by the National Capital Commission.

## Focus of the audit

- 6.9 Our objective was to determine whether the federal government, in particular the National Capital Commission and Public Works and Government Services Canada, had adopted the management practices required for the conservation of the official residences. Among other things, we examined the data that these two entities have on the condition of official residences, their planned conservation work, the funding available, and the communications strategies that these entities use with the occupants of the residences or their representatives.
- **6.10** This audit was conducted as a parallel to the quinquennial special examination of the National Capital Commission that we carried out in 2007. The National Capital Commission has had our special examination posted on its website since November 2007.
- **6.11** More details on the audit objective, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

## **Observations**

# Condition of the official residences

## Reasonable practices are used to assess the condition of the official residences

6.12 The National Capital Commission has been collecting data for the past twenty years on the condition of the official residences for which it is responsible. The Commission conducted an initial assessment of their condition in the late 1980s, after Public Works and Government Services Canada ceded custody of the residences to the Commission in 1987. It re-assessed the condition of the official residences in 1999 and in 2005 as part of applications for capital funding from the federal government. Since 2006, it has adopted management practices that enable it to annually update its data on the condition of the residences, based on the results of its rehabilitation projects, based on its regular maintenance activities and, as required, based on its extensive studies of specific elements of the exterior and interior systems.

- 6.13 The official residences include not only the main building where the occupants live, but also other buildings, infrastructures, grounds, and gardens that contribute to their character. The main building is normally divided into three elements: the exterior, the interior systems, and the interior elements subject to cyclical renewal. The main building's exterior includes the roof, walls, windows, doors, foundations, and chimneys. The interior systems include heating, ventilation, air conditioning, electrical, plumbing, fire safety, and universal accessibility. The interior elements subject to cyclical renewal (carpets, decor, lighting) are found in the public and private areas of the residence as well as in service areas (kitchens, laundry).
- 6.14 In 2006, the National Capital Commission rated the condition of all elements of official residences on a scale from 1 to 10. A rating of 1 is critical, a rating of 3 is poor, a rating of 5 is fair, a rating of 7 is good, and a rating of 10 is excellent. When it assigns a rating to an element, the National Capital Commission takes into account a number of factors, all of which are interdependent (Exhibit 6.2). The National Capital Commission has set a rating of 8 as the target condition of the various elements of the residences. An element with this rating is in good enough condition to fulfill the operational requirements assigned to it, and poses no threat to personal safety, heritage preservation, or the environment.

Exhibit 6.2 Rating system for the condition of various elements of the official residences

Rating	Degree of deterioration of the element	Life cycle stage	Fulfillment of occupants' requirements	Degree of threat to personal safety, heritage preservation, or the environment
1 (critical condition)	Greatly deteriorated	End of life cycle—must be repaired or replaced immediately	Cannot fulfill operational requirements	Immediate threat
3 (poor condition)	Greatly deteriorated	Nearing end of life cycle—should be repaired in the near future	Fulfills operational requirements with difficulty only	Potential threat
5 (fair condition)	Somewhat damaged or showing signs of failure	Midpoint of life cycle—preventative repair	Fulfills operational requirements minimally	No threat
7 (good condition)	In good condition	Near beginning of life cycle—normal maintenance	Fulfills most operational requirements	No threat
10 (excellent condition)	Practically new or entirely restored	At beginning of life cycle	Fulfills all operational requirements	No threat

Source National Capital Commission

- 6.15 Public Works and Government Services Canada is the custodian of the official residence located at La Citadelle in Québec City. The Department assessed the condition of the La Citadelle residence in 2001, after which it prepared a five-year management plan, to determine what work needed to be done and to plan its budget accordingly. The Department regularly inspects the elements of the main building, the three adjacent buildings, and the grounds. It has implemented a maintenance program.
- 6.16 We tested the reliability of the data on the condition of the official residences by visiting them and consulting experts. We concluded from our examination work that the National Capital Commission and Public Works and Government Services Canada have reasonable practices in place for assessing the condition of the residences and that their data on the condition of the latter are reliable.

# To fully understand the condition of the official residences, their functions must be taken into account

- 6.17 Exhibit 6.3 shows that most residences have serious (1-3) deficiencies in, among other things, universal accessibility, air conditioning, and service areas. These deficiencies have little impact on the structure of the residences. However, they limit the capacity of the official residences to offer occupants a reasonable level of comfort, hindering the occupants' ability to carry out their official duties efficiently.
- Residences of Canada, the National Capital Commission has developed management principles for the official residences (see Appendix). These principles were established as a general guide for the National Capital Commission as it fulfills its mandate for, among other things, long-term development and maintenance of official residences in the National Capital Region.
- 6.19 The management principles take into account current standards for construction, health and safety, and heritage building conservation, as well as the intended functions of the official residences. One of these principles requires that each residence have a life cycle management plan, which serves as the basis for an ongoing cycle of maintenance, repair, and property management. Other management principles are tied to the functions of the residences. These require, for example, that all residences be divided into two parts: public areas and private areas. The decor of public areas must be maintained for

one generation (on the order of 20 years) before it may be completely redecorated. The public areas in Rideau Hall and the Prime Minister's residence take up approximately sixty percent of the living area of these residences. The decor in private areas may reflect the preferences of the occupants of the residences.

6.20 Other countries use management practices comparable to those of the National Capital Commission for the conservation of official residences: hiring experienced staff to be on site for daily management of residences; creation of consultative committees charged with the responsibility of advising occupants or their representatives on the conservation of residences, on their decoration and furnishing, and on the protection of artifacts; division of residences into public areas and private areas; use of public areas for state functions, working sessions, and public receptions.

Exhibit 6.3 All the official residences, in particular 24 Sussex Drive, have elements in poor to critical condition (1 to 3)

Official Residence	Main Building			Other buildings	Infrastructure and grounds
	Exterior	Interior systems	Interior life cycle renewal		
Rideau Hall	Walls	UA	N/A	13 of 27 buildings are in poor to critical condition	Fences
24 Sussex Dr.	Windows	HVAC, UA, electricity, plumbing, absence of sprinklers	Support areas	N/A	Sewers, fences landscaping
Stornoway	N/A	Limited number of sprinklers	N/A	N/A	N/A
The Farm	N/A	UA, plumbing	N/A	3 of 6 buildings are in poor to critical condition	N/A
7 Rideau Gate	Windows and walls	HVAC, UA	N/A	N/A	Fences, landscaping
Harrington Lake (Lac Mousseau)	Windows and walls	UA	N/A .	4 of 9 buildings are in poor to critical condition	Bridges
La Citadelle	N/A	AC of West Wing	N/A	1 of 3 buildings is in poor to critical condition	; N/A

HVAC: Heating, ventilation, air conditioning; UA: Universal Access; AC: air conditioning

Source National Capital Commission (31 March 2007) and Public Works and Government Services Canada

## The residences in the National Capital Region are showing signs of fatigue and wear

6.21 Exhibit 6.3 shows that certain elements of the exterior of the four residences, several interior systems, and a number of other buildings are in critical or poor condition. The National Capital Commission needs to pay special attention to them, in the near future. The fact that elements of a residence are in poor or critical condition does not necessarily mean that the residence is unsafe. However, it does mean that costs for maintaining and operating these residences will be higher, and that occupants will suffer some discomfort. For example, improperly insulated windows add to heating costs. The lack of central air conditioning in certain residences reduces the level of comfort afforded the occupants.

6.22 Exhibits 6.4 and 6.5 give examples showing that many of the elements of official residences are in fair condition, that is, they are fulfilling their functions minimally. This is true in particular for the elements of Rideau Hall's main building exterior, and for 24 Sussex Drive's exterior. Overall, very few elements of the official residences are in good condition (with a rating of 7) or have reached the Commission's target condition (with a rating of 8). Consequently, a large number of extensive rehabilitation projects will be required over the next few years to bring these elements up to the desired condition.

Elements

Roofing
Walls
Windows

Foundations

Chimneys

Critical | Poor | Fair | Good | to poor | to fair | to good | to excellent |

Condition

Exhibit 6.4 Rideau Hall's main building needs significant work to bring it to target condition

Source: National Capital Commission

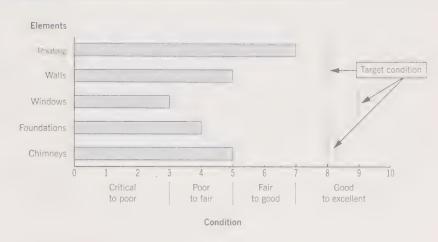


Exhibit 6.5 24 Sussex Drive needs significant work to bring it to target condition

Source: National Capital Commission

### Rideau Hall and 24 Sussex Drive require extensive repairs

- **6.23** Rideau Hall. Rideau Hall has many deficiencies, despite the fact that most of the National Capital Commission's rehabilitation work was done at this site over the past few years.
- Main building. Exhibit 6.3 shows that the walls of the main building are generally in poor condition (2), and that a number of areas of the residence are not universally accessible. Exhibit 6.4 shows that the roof, windows, and chimneys are in fair condition. This means that over two thirds of the exterior (4,000 square metres of roofing, 1,200 square metres of masonry, 2,715 square metres of stucco-covered surface, 400 metres of gutters, 474 metres of foundations, 300 windows, and 29 doors) in the Governor General's residence are in fair condition and need repair or rehabilitation. Several areas of the building have no central air conditioning. Over the past few years, the National Capital Commission has restored the basement of the Minto Wing, the mechanical room, the ballroom, the ceiling of the Oval Suite, and the main steam lines. At the time of our audit, the Commission had almost completed the rehabilitation of the facade of the main building (Mappin Wing). Among other things, this project will make it possible to correct some of the shortcomings observed in the exterior walls of the main building.
- 6.25 Other buildings. Despite the fact that in recent years the National Capital Commission has undertaken a number of large projects, such as the renovation of the stables, half of the 27 other buildings situated on the Rideau Hall property are in poor to critical

condition. These include the Visitors' Centre at 11 Rideau Gate, the Foot Guard house, the Gasometer or Dome Building, and the Farm Building. The Dome Building provides office accommodations for a number of Rideau Hall employees.

- 6.26 Infrastructure and grounds. A large amount of work has been done in recent years to improve the irrigation, sewage, and electrical supply systems. Work remains to be done to complete the rehabilitation of the 2.3 kilometres of perimeter fencing with heritage value.
- 6.27 24 Sussex Drive. The most recent work of an extensive nature carried out at 24 Sussex Drive dates back to when it was purchased by the government, over fifty years ago. It is therefore not surprising to note that a number of the residence's systems are reaching the end of their useful lives, are in poor condition, and will have to be replaced in the near future.
- 6.28 Exhibit 6.3 shows the elements of the residence that are in poor or critical condition. The windows and caulking are cracked; and the tracks and windows are loose. These deficiencies cause extensive heat loss, increase the building's heating costs, and greatly reduce the energy efficiency of the residence. The air conditioning units installed in the windows are nearing the end of their useful lives. They are noisy and inefficient; they weaken the windows in which they are installed. The house was wired for electricity some fifty years ago, and the electrical system is operating at nearly maximum capacity. It cannot meet increases in demand or new operational requirements. The plumbing system is deficient. This building, which functions as a reception area for distinguished national and international guests, does not have universal access for persons with reduced mobility. The service elevator dates back to the 1950s and cannot accommodate modern wheelchairs. Service areas such as the kitchen and the basement laundry are not functional. Exhibit 6.5 shows that the only element of the exterior at 24 Sussex that is in good condition is the roof, which was re-done in 1998. The other elements are in poor or fair condition.



Exterior air conditioning units and entrance of 24 Sussex Drive

#### The condition of the other residences has improved

6.29 The National Capital Commission has made improvements to the condition of the other official residences in recent years. At the residence of the Leader of the Opposition, **Stornoway**, the National Capital Commission restored the roofing, modernized the kitchen, and landscaped the exterior grounds in 2000–01. At **Harrington Lake** 

(Lac Mousseau) in 2005–06, the National Capital Commission rebuilt the roof, repaired part of the building foundations, and upgraded the electrical, plumbing, and fire protection systems. The solarium and a number of verandas were restored. Despite this progress, the windows and exterior walls still need repair work. Four of the nine other buildings located on this property are in critical condition. At 7 Rideau Gate, the Commission has redone the electrical wiring and has installed fire alarm systems and emergency lighting. However, repair work is still needed for the windows and exterior doors, the stone walls must be repointed, and the air conditioning system must be expanded to include the entire building. The Main Building at The Farm (Kingsmere) is in relatively good condition, except for the plumbing system. Over the past few years, the National Capital Commission has installed a new emergency generator and an automatic sprinkler system, built a garage, and improved the landscaping at The Farm. However, three of the six other buildings are in critical condition.

- 6.30 Public Works and Government Services Canada rebuilt the East Wing of the residence at La Citadelle in Québec City, which had burned down in 1976. This work was completed in 1984. Since then, the Department has re-fitted the public and private areas. It also modernized the fire alarm system in 2004–05. The residence is in relatively good condition and the Department has implemented a preventative maintenance program. One of the three other buildings (La Redoute) is in poor condition.
- **6.31** Despite the improvements made to these residences, their constituent elements are not all in good condition. It is important that the National Capital Commission continue to invest in these residences to improve safety and comfort, and to ensure they function efficiently.

# Conservation of official residences

The National Capital Commission has launched a large-scale rehabilitation program for official residences

- **6.32** The budget restrictions of the 1990s forced the National Capital Commission, like the rest of the federal administration, to scale back its capital plans. Consequently, the National Capital Commission could perform only the most urgent rehabilitation work, and postponed other important work. This helped create a backlog of key rehabilitation work for official residences.
- **6.33** In 1999, the National Capital Commission developed a ten-year capital plan called the Life-Cycle Management Program, to upgrade

the official residences. Through an initial six-year funding program (from 1999–2000 to 2004–05), the Commission was able to conduct rehabilitation work to ensure the health and safety of the occupants. In 2005, the Commission updated its ten-year capital property plan and asked the government for additional funding to enable it to bring up to an acceptable level those elements whose condition had been rated critical to poor, and to enable it to maintain the official residences thereafter. At the time, the Commission estimated that the cost of the work to be undertaken would be approximately \$30 million over four years. The government gave the Commission an additional capital and operating budget of \$32 million over four years (2005–06 to 2008–09), to clear out the backlog of urgent work to be done. It will also provide to the Commission a recurring amount of \$6.7 million, starting in 2009–10.

**6.34** Exhibit 6.6 shows the National Capital Commission's capital funding and expenditures over the past ten years.

Exhibit 6.6 Capital work: funding received and expenditures

Year	Funding received (in millions of \$)	Expenditures (in millions of \$)	Capital funding used mainly for
		5.0	Rideau Hall
2006–07	5.7	5.9	24 Sussex
			Harrington Lake (Lac Mousseau)
2005–06	005–06   0.8 2.5	2.5	24 Sussex
			Rideau Hall
2004-05	1.1	0.6	
2003-04	5.7	5.3	
2002-03		7.3	
2001-02	10.5	5.7	Rideau Hall
2000-01	11.0	3.2	
1999–00	5.4	2.9	
1997–99		4.0	
Total	40.2	37.4	

The variance between capital funding received and capital expenditures is mainly due to transfers of funds to cover operating expenditures for official residences' upkeep and repairs.

Source: National Capital Commission

6.35 In 2005–06 and 2006–07, the National Capital Commission undertook several official-residence rehabilitation projects, particularly at the Harrington Lake (Lac Mousseau) residence and at Rideau Hall, where the Commission rehabilitated the facade of the main building. The Commission's five-year capital plan (2007–08 to 2011–12) includes large-scale rehabilitation work for Rideau Hall and 24 Sussex Drive. It also includes maintenance and repair programs at Stornoway, The Farm, Harrington Lake (Lac Mousseau), and 7 Rideau Gate. The Commission estimates that the capital work planned for the next five years will cost about \$24 million. The Commission bases this estimate on its knowledge of the condition of the buildings and on its experience with rehabilitation work. The actual cost could differ due to unpredictable factors such as deterioration proving more advanced than anticipated, or contracts escalating in cost due, for example, to increases in the price of materials and manpower. Public Works and Government Services Canada is planning rehabilitation work at La Redoute (in La Citadelle) in 2007-08. Exhibit 6.7 presents a summary of the work planned for all the residences in the next five years.

Exhibit 6.7 Major rehabilitation projects planned for official residences (April 2007 to March 2012)

Official residence	Estimated cost of work (\$ millions)	Exterior	Interior systems	Interior life cycle renewal	Other structures	Infrastructure and grounds
Rideau Hall	12.2	Mappin Wing	Wing 1865	Tent Room	Five buildings	Surrounding
		Ongoing rehabilitation program: roofing, walls, and windows	Ongoing rehabilitation program: interior HVAC, UA, and electricity systems			fence
24 Sussex Drive	9.7	Windows	HVAC, UA, electricity, plumbing, and sprinklers	Service areas	N/A	Landscaping
Stornoway	0.3	, N/A	Limited number of sprinklers	N/A	N/A	N/A
Tria Farmi	۶	î, h	N. /4	194	· in	Paris
lie seau Bare	10.5	14. A	r. 14	LDA	4.00	N A
Harrington Lake (Lac Mousseau)	0.5	N/A	Walls and windows	UA	Bridge	N/A
La Citadelle	0.5	* , m	·, .	1, .		103

HVAC Heating, ventilation, air conditioning: UA: Universal access

Source National Capital Commission (31 March 2007) and Public Works and Government Services Canada

6.36 Our review of the National Capital Commission's official residence rehabilitation program showed that the Commission has taken into account elements that are in poor or critical condition, and that the program reflects the management principles established for official residences. The available funding will enable the Commission to decrease the gap between the current condition of the residences and the desired condition (a rating of 8).

# Complete rehabilitation of 24 Sussex Drive will require prolonged access to the residence

- 6.37 The National Capital Commission, like any other real property manager, must be able to access the residences or buildings in its custody in order to perform the maintenance and rehabilitation work it deems necessary. It is important that the National Capital Commission be able to count on the support of the occupants of the official residences and their representatives to properly fulfill its mandate.
- 6.38 The issue of access to official residences is a complex one because the role and functions of their occupants must be supported, their and their family's private lives respected, and the heritage value of these residences protected. Ease of access varies from one residence to the next. For example, the secondary residences of the Governor General in Québec City and of the Prime Minister of Canada at Harrington Lake (Lac Mousseau) are not occupied full time, and are therefore more readily accessible than the principal residences. The same is true for 7 Rideau Gate, which accommodates foreign dignitaries only on certain occasions or during events scheduled well ahead of time. It is also easier to access a residence when the work to be done is on the exterior or is short-term. Such short-term work can be carried out when the occupants are absent (while they are on vacation, for instance). The relatively good condition of the Harrington Lake (Lac Mousseau), La Citadelle, Stornoway, and 7 Rideau Gate residences seems to go hand-in-hand with their greater accessibility.
- 6.39 We examined the National Capital Commission's practices in giving the occupants of official residences notification of the condition of their residence and of the rehabilitation work planned to conserve it. Normally, the National Capital Commission communicates with an occupant of a residence through its on-site staff. This makes it possible for the Commission to notify the occupant of the condition of the residence and the work it plans to carry out. The Commission occasionally communicates with the occupant directly. We also noted that the Commission had written to the Privy Council Office to notify

it of the condition of 24 Sussex Drive and of the work required for preservation of the residence. We found that these were reasonable communication practices.

Because of the Prime Minister's many duties, and because the window of opportunity for completing work tends to be relatively small, planning work for 24 Sussex Drive is somewhat more complex. In the past few years, the National Capital Commission has carried out various work projects that were either short-term or that did not interfere in a significant way with the daily lives of the occupants of the residence. However, more extensive rehabilitation work is now required. Among other things, the ceilings and interior walls of the residence will have to be opened up to install new air ducts for ventilation and air conditioning, to replace old electrical wiring, to install a sprinkler system for fire protection, to remove toxic materials, such as asbestos, or to monitor such materials, and to retrofit the service areas. The National Capital Commission estimates that this rehabilitation work will take about 12 to 15 months to complete, assuming there are no unexpected complications and that no unforeseen repairs are found to be needed after the opening of the ceilings and walls in the residence. The nature of the planned work, and the disruption it may cause to the lives of the Prime Minister and his family, is such that asking the Prime Minister to move out of the residence for the duration of the work must be considered as a practical solution. It would be more efficient to carry out all this work at the same time than to spread it out over several years, inconveniencing the occupants each time. The implementation of this type of solution would, however, mean that the National Capital Commission would have to offer the Prime Minister and his family a temporary, secure residence that would meet their needs.

**6.41** The constant postponement of the rehabilitation of 24 Sussex Drive may entail a number of consequences, notably

- further deterioration of this heritage property,
- · an increase in rehabilitation costs,
- more discomfort for its occupants,
- · more difficulty fulfilling official functions, and
- the risk of fostering a negative image of Canada with visiting foreign dignitaries.

### **Public information**

6.42 The public follows the condition of the official residences of the federal government with interest. We examined the information that the National Capital Commission provides on this topic in its corporate plan summary and annual report. We found that the National Capital Commission provides information that is mainly financial (funding received, capital and operating expenditures) on the official residences it is responsible for. It also provides information on some of the larger projects it is undertaking. Such is the case with the rehabilitation of the facade of the Mappin Wing at Rideau Hall. A little information is also available on the Commission's website.

### There are gaps in the information provided on the nature and impact of future work

- 6.43 The National Capital Commission does not provide much information on the condition of each residence, the nature and cost of the work to be done in the coming years, or on the impact of the necessary work on the condition of the residences. In our opinion, this type of information would help parliamentarians and the public better understand the nature of the deficiencies found, the risk that these deficiencies cause to the occupants and to heritage property, and the conservation challenges that they pose.
- 6.44 The National Capital Commission is aware of these shortcomings. Last November, the Commission announced new initiatives for improving its openness and transparency.

### Conclusion

- 6.45 The National Capital Commission has implemented reasonable management practices to ensure that the official residences are conserved. It regularly assesses the condition of the official residences and develops rehabilitation programs based on its knowledge of the condition of the residences and on the applicable management principles. The Commission keeps the occupants of the official residences or their representatives informed of the condition of their residence and of the work that will be required to conserve it.
- 6.46 The official residences, particularly Rideau Hall and 24 Sussex Drive, are showing signs of fatigue and wear, and require extensive repair work. Thanks to the funding it received in 2005, the National Capital Commission undertook an extensive official residence rehabilitation program. Prolonged access to 24 Sussex Drive will be required for rehabilitation of the residence.

**6.47** Public Works and Government Services Canada has adopted sound management practices for ensuring the conservation of La Citadelle residence in Québec City. Minor projects are planned in the next five years.

## About the Audit

### **Objective**

The objective of this audit was to determine whether the federal government has adopted the management practices required for the conservation of its official residences.

### Scope and approach

This audit was carried out at the same time as the quinquennial special examination of the National Capital Commission that we conducted in 2007. The National Capital Commission published the report on that special examination in November 2007.

### We examined

- relevant data and documents on the condition of the official residences of the federal government;
- conservation work planned and performed, the assessment of risks posed by the variable condition of the official residences, the timely availability of financial resources, and the strategy for communicating with the occupants of the residences in order to obtain the access necessary when work is to be performed; and
- information provided to Parliament concerning the condition of the official residences and the conservation work planned and carried out.

We did not verify the accuracy of the information on the estimated costs of rehabilitation projects.

### Our audit method included

- analyzing various documents, reports, and data on the conservation management of the official residences of the federal government;
- reviewing conservation activity files;
- · meeting with representatives of the federal organizations concerned; and
- touring the official residences.

We carried out our examination work at

- the National Capital Commission,
- Public Works and Government Services Canada,
- Transport Canada,
- the Treasury Board of Canada Secretariat, and
- the Privy Council Office.

Our examination did not include those of the conservation activities carried out by Public Works and Government Services Canada that involve the buildings on Parliament Hill.

#### Criteria

We expected the federal organizations concerned to have

- assessed the condition of the official residences,
- · developed conservation plans based on these assessments,
- · conducted the rehabilitation projects included in its plans in a timely manner,
- requested access to the official residences in order to perform their rehabilitation work in a timely manner, and
- informed Parliament of the results of their conservation work on the official residences.

#### Sources for our criteria were

- applicable administrative policies of the National Capital Commission and Public Works and Government Services Canada,
- · real property management policy developed by Treasury Board, and
- standards and guidelines for the conservation of heritage sites in Canada.

### Audit work completed

The audit work for this chapter was substantially completed on 30 September 2007.

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# Appendix Management principles for the official residences of Canada

The management principles applicable to the official residences were developed by the National Capital Commission, with the support of the Advisory Committee on the Official Residences of Canada, in order to establish general guidance for the Commission to meet its responsibilities concerning policy development, strategic planning, long-term accommodation, and maintenance involving the official residences located in the National Capital Region.

### Planning principles

- All the residences are divided into two parts: public areas and private areas (dictating the guidelines for management and decor).
- All the grounds are divided into separate landscaping zones (dictating the guidelines for utilization, maintenance, and activity).
- The decor of public areas must be maintained for one generation before the premises may be redecorated.
- The heritage features of the residences as defined by the Federal Heritage Buildings Review Office must be preserved.
- There is a plan for each residence that covers the preferred strategies in terms of building, grounds, and infrastructure development.
- There is a life cycle management plan for each residence.
- There is an emergency response plan for each residence.
- All the residences must be operational at all times (unless specific arrangements have been made).
- All the residences and all the grounds must be universally accessible (guidelines on access through the main entrance and to the floor reserved for guests).
- · All technical equipment in buildings must meet current standards.
- All the residences must be equipped with alarms and fire extinguishers (in order to evacuate the occupants and safeguard property).
- All the residences must be equipped with emergency systems capable of providing back-up if the main systems fail (for example, emergency energy supply sources capable of meeting health, safety, and operating requirements, should a power outage occur).
- · All the residences must be equipped and furnished at all times.
- The content of all the residences must be regularly inventoried, inspected, and maintained.
- Although steps must be taken in all the residences to safeguard heritage collections and furnishings, they cannot be subject to standards applicable to museums.
- Environmentally friendly practices must be used to manage the residences.

Source National Capital Commission



# Report of the Auditor General of Canada to the House of Commons—May 2008

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Report of the
Auditor General
of Canada
to the House of Commons

MAY

Chapter 7
Detention and Removal of Individuals—
Canada Border Services Agency



Office of the Auditor General of Canada



# 2008



Report of the Auditor General of Canada

to the House of Commons

MAY

Chapter 7
Detention and Removal of Individuals—
Canada Border Services Agency





The May 2008 Report of the Auditor General of Canada comprises A Message from the Auditor General of Canada, Main Points—Chapters 1 to 8, and eight chapters. The main table of contents for the Report is found at the end of this publication.

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# Chapter

Detention and Removal of Individuals Canada Border Services Agency

All of the audit work in this chapter was cond by The Canadian Institute of Chartered Acco	ountants. While the Off	ice adopts these standards	ance engagements set as the minimum requireme	ent
for our audits, we also draw upon the standar	rds and practices of othe	r disciplines.		
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# Detention and Removal of Individuals Canada Border Services Agency

### **Main Points**

### What we examined

Under the *Immigration and Refugee Protection Act*, as amended in 2003, officers of the Canada Border Services Agency (CBSA) are authorized to arrest and detain permanent residents and foreign nationals at ports of entry and within Canada who have, or who may have, breached the Act. People can be detained if they pose a danger to the public, their identity is in question, or there is reason to believe that they will not appear for immigration proceedings. The Agency is also authorized to remove people found to be inadmissible to Canada. In 2006–07, it removed about 12,600 individuals, including about 1,900 criminals who posed a high risk to Canada.

Responsibility for detentions and removals was transferred from Citizenship and Immigration Canada to the CBSA when the Agency was created in December 2003.

We examined whether the CBSA and Citizenship and Immigration Canada (CIC) have clearly articulated their respective accountabilities for administering the *Immigration and Refugee Protection Act* and for reporting on the detention and removal of individuals. In addition, we looked at whether CBSA manages the detention of individuals consistently, in compliance with its policies and standards, and with due regard to economy. We also looked at whether it removes individuals from Canada based on the risks they present and at whether it does so cost-effectively.

We undertook this audit following a request by the Public Accounts Committee to report back on whether the management of detentions and removals has improved under the CBSA since 2003, when we audited those activities as part of CIC's control and enforcement program.

### Why it's important

By detaining and removing those who would enter Canada illegally or who pose a threat to Canadians, the Canada Border Services Agency contributes to the safety and security of Canadians. In its detention and removal of those who are inadmissible, it also plays a key role in maintaining the integrity of Canada's immigration and refugee programs and ensuring fairness for those who come to this country lawfully.

### What we found

- Since our last audit, the Agency has made a number of improvements in its management of detentions and removals. It better estimates the number of outstanding cases and it set up processes to help it focus its efforts on removing the higher-risk individuals. While the Agency has improved its identification of risks and tracking of individuals ready for removal, there remains a growing number of individuals who might be in Canada illegally—whose whereabouts are unknown—thereby jeopardizing the integrity of Canada's immigration program. The resources available for detentions and removals remain relatively unchanged since our last audit.
- The Agency's policies and standards for detaining individuals are broad and allow substantial latitude for decision making. We noted that the Agency's decisions to detain or release individuals from detention are not monitored adequately to determine whether individuals receive consistent and fair treatment. The Agency has established standards for the treatment of individuals while in detention, but does not ensure that these standards are met. Further, it does not analyze the extent to which individuals released on bond or on other terms comply with the conditions of their release.
- The Agency does not carry out certain aspects of detentions and removals with due regard to cost. Where it uses provincial detention facilities, it does not have signed agreements in place with most of the provinces to establish the cost and conditions of detention. The Agency has little information on removal costs at a national level. Few controls are in place to ensure that the decision to escort individuals being removed to their destination country is based on risk, and that these costs are properly monitored.
- Detentions and removals require good coordination between the Agency and Citizenship and Immigration Canada to fulfill their respective responsibilities. A memorandum of understanding (MOU) between the Canada Border Services Agency and Citizenship and Immigration Canada clearly articulates their respective accountabilities in detentions and removals. Each organization is currently reviewing its experience with the MOU to determine whether improvements are needed to support the delivery of the program.

The Agency and the Department have responded. The Canada Border Services Agency agrees with all of our recommendations. Citizenship and Immigration Canada agrees with the one recommendation addressed to it at paragraph 7.20. Their detailed responses follow the recommendations throughout the chapter.

### Introduction

- 7.1 Each year, thousands of individuals legally enter Canada in accordance with our immigration policy objectives, which support family reunification, economic development, and humanitarian considerations. At the same time, thousands of individuals gain access to Canada who do not meet these objectives, and who may pose a threat to the safety and security of those in Canada. The Canada Border Services Agency plays an important role in ensuring the integrity of Canada's immigration and refugee programs and the safety and security of Canadians. Under the *Immigration and Refugee Protection Act*, the Agency has the authority to detain foreign nationals and permanent residents whom it believes pose a risk or danger to the public, and to remove individuals found inadmissible to Canada.
- 7.2 In December 2003, the federal government created the Canada Border Services Agency, which reports to the Minister of Public Safety, to integrate the front-line border management and enforcement activities that three organizations formerly performed:
  - customs services, previously part of the then Canada Customs and Revenue Agency (CCRA);
  - immigration services at ports of entry and most of the Intelligence and Enforcement programs of Citizenship and Immigration Canada (CIC); and
  - the Import Inspection at Ports of Entry program of the Canadian Food Inspection Agency.
- 7.3 The Agency and Citizenship and Immigration Canada share responsibility for carrying out the provisions of the *Immigration and Refugee Protection Act*. While Citizenship and Immigration Canada is primarily responsible for immigration policy, issuing visas, and pre-removal risk assessment, the Canada Border Services Agency is primarily responsible for the enforcement provisions of this Act.
- 7.4 Our last audit of this area in 2003 found that a growing number of people remained in Canada despite the government having issued a removal order against them. We estimated that this number had grown by about 36,000 people over the previous six years, although we noted that this calculation was imprecise as Canada does not record information on individuals leaving the country. As we could not

estimate a total number, this was the best available measure of a growing problem. We also noted other issues, including

- the lack of clear roles and accountabilities between the then Canada Customs and Revenue Agency and Citizenship and Immigration Canada,
- the lack of consistency in decisions for detention, and
- the inadequacy of the system to identify and recover costs from airlines for removals.

### Ongoing challenges to the timely removal of persons

- Many steps in the removal of people found inadmissible to Canada are not within the Agency's control. As previously stated, the Agency shares the administration of the Act with Citizenship and Immigration Canada (CIC). Inadmissible individuals may be identified by both the Agency and CIC. As well, the Immigration and Refugee Board of Canada determines the admissibility of an individual in more complex cases. The Board is an independent administrative tribunal that reports to Parliament through the Minister of Citizenship and Immigration. Many legal safeguards are in place to ensure that individuals are not detained or removed without cause or due process. These safeguards take effect as soon as a person arrives in Canada and receives the protection of the Charter of Rights and Freedoms. After a person is detained for 48 hours, the Immigration and Refugee Board reviews the detention decision to determine if the person should be released or remain in detention. If the Board determines that the detention should be continued, it reviews the decision 7 days later and every 30 days thereafter. Unfavourable decisions are subject to judicial review before the Federal Court of Canada.
- 7.6 The process of determining admissibility may also take place over a long period, with the removal occurring months or years after an individual's entry into Canada. Individuals are removed from Canada once the Agency has determined that all legal claims have been exhausted. The Agency needs to ensure that the laws and policies of Canada are upheld, balancing the need to prevent individuals entering Canada illegally or without permission with the need to recognize an individual's rights to due process.
- 7.7 The objective of Agency officials is to remove inadmissible individuals from Canada as quickly as possible, in a safe, effective, and respectful manner, while mindful of their legal rights. In some

# Examples of legal means of remaining in Canada

- Refugee claimants, pending the outcome of their claim
- · Temporary Resident Permit holders
- Permanent residents
- · Recipients of a stay of removal

Pre-removal Risk Assessment—A process conducted by Citizenship and Immigration Canada to determine whether a person subject to a removal order will face persecution, torture, risk to life, or risk of cruel and unusual punishment if removed from Canada. If the applicant is found to be at risk, they may be authorized to remain in Canada indefinitely. This process is available to most individuals subject to a removal order and to refugees as defined in the Immigration and Refugee Protection Act. If the risk assessment is negative, the individual may apply for a review of the decision to the

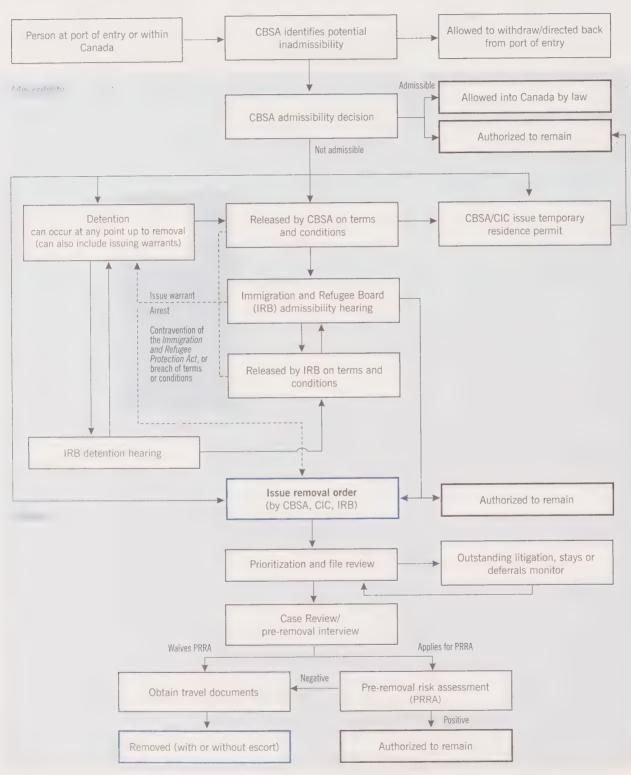
cases, removal can be done the same day an individual arrives at a port of entry, if he or she has waived or exhausted any legal right to remain in Canada.

7.8 The Agency has found that the longer it takes to process a removal order, the greater the cost and effort to remove the individual. Exhibit 7.1 depicts a simplified version of the detentions and removals process. During the removal process, the individual may apply for a Pre-removal Risk Assessment, or to become a permanent resident. If this risk assessment is negative or if the application for permanent residency is declined, the Agency may still have difficulty obtaining travel documents such as passports or the authority to remove the individual to his or her destination country. The combination of these factors can add years to the removal process.

#### Focus of the audit

- 7.9 We undertook this audit following a request by the Public Accounts Committee to report back on whether the management of detentions and removals has improved under the Agency since 2003, when we audited those activities as part of Citizenship and Immigration Canada's control and enforcement program. The government committed to making improvements and submitted an action plan to the Public Accounts Committee in April 2004. This chapter examines the detention and removal of individuals, the tracking of individuals who are the subject of outstanding removal orders, and the costs associated with these activities.
- 7.10 We examined whether the Agency and Citizenship and Immigration Canada have clearly articulated their respective responsibilities for administering the *Immigration and Refugee Protection* Act and for reporting on the detention and removal of individuals. In addition, we looked at whether the Agency manages the detention of individuals consistently, in compliance with its policies and standards, and with due regard to economy. We also looked at whether it removes individuals from Canada cost-effectively and based on the risks they present.
- 7.11 More details on the audit objectives, scope, approach, and criteria are in **About the Audit** at the end of this chapter.

Exhibit 7.1 The complexity of the detentions and removals process can present challenges



Note: This exhibit presents a simplified version of the detentions and removals process, primarily from the perspective of the Canada Border Services Agency. It is not intended to portray every eventuality.

# **Observations and Recommendations**

### Coordinating the shared mandate

- 7.12 At the time of our last audit in 2003, the management of detentions and removals was undergoing considerable change. Many processes were being revised to reflect the new *Immigration and Refugee Protection Act* that came into force in 2002. Soon after the introduction of the Act and our 2003 audit, the Canada Border Services Agency was created in December 2003. At that time, Citizenship and Immigration Canada's inland enforcement and intelligence staff were transferred to the Agency, followed by immigration services at ports of entry in October 2004. Coinciding with these changes was the implementation of international agreements on the migration of people to North America and coordination with the United States to enhance border security.
- 7.13 We expected that the Agency and Citizenship and Immigration Canada (CIC or the Department) would develop and implement a memorandum of understanding to guide their shared responsibilities for administering the Act that clearly describes their respective border management roles and responsibilities, to reflect operating environments and practices, and to set performance standards and measures.
- 7.14 In March 2006, the Agency and the Department signed a memorandum of understanding that clearly outlines their respective responsibilities under the Act. The agreement addresses the information that needs to be shared between the organizations. At the time of this audit, both organizations were reviewing the agreement and its administration. Overall, they felt that excellent progress was being made in establishing an effective working relationship. However, challenges remain in establishing clear lines of communication for specific programs, improving information sharing, and aligning priorities. The Agency and Department intend to take corrective action and to meet regularly to monitor the delivery of their respective responsibilities under the Act.

### Reasons for issuing permits are not documented consistently

7.15 One area of shared responsibility is the issuance of Temporary Resident Permits. Both the Agency and the Department have authority to issue these permits to allow the temporary entry of people who are inadmissible to Canada under the *Immigration and Refugee Protection* Act for technical, medical, or criminal history reasons. Border services officers may issue these permits at ports of entry to inadmissible individuals when there are compelling reasons, and this

must be weighed against the risk posed to Canadians. The Agency issued 9,489 permits in 2006, representing about 70 percent of the 13,412 permits issued that year.

#### **Temporary Resident Permits**

Under the *Immigration and Refugee Protection Act*, individuals who are considered to be inadmissible may enter Canada on a temporary basis if there are circumstances that warrant the individual's entry, such as economic benefit to Canada or sufficient humanitarian and compassionate grounds. Each permit costs \$200 and can be issued for periods ranging from one day to three years.

Citizenship and Immigration Canada (CIC) is responsible for the overall policy and oversight of Temporary Resident Permits, but both CIC and the Canada Border Services Agency can issue permits. CIC may issue permits to individuals who are inadmissible for reasons of national security, human rights violations, and organized crime. The Agency has the delegated authority to issue permits at its ports of entry to individuals who are inadmissible for technical, medical, or criminal history reasons. These permits must be approved by senior officers. In considering the issuance of a permit, officers must weigh the individual's need to enter Canada against the risk that the individual poses to Canada or Canadians. Officers are required to document the reasons for their decision in the file.

- Serious criminality—A distinction given to an individual who has been convicted of an offence that would be punishable by a maximum term of imprisonment of at least 10 years under Canadian law.
- 7.16 CIC policy requires officers (of CIC and CBSA) to clearly document their reasons for issuing a Temporary Resident Permit. We examined a random sample of 64 files from a total of 639 permits issued by CBSA in 2006 to individuals who were inadmissible for past serious criminality. We found that the reason for issuing permits was clearly documented in 43 (68 percent) of the files. In most of the cases where we did not find a reason clearly documented, we did find some information in the file, but it was not linked to the decision to issue the permit. In our 2003 audit, we found that 51 percent of serious criminality and national security files sampled were properly documented.
- 7.17 We also examined the four cases in which the Agency issued a permit at a port of entry for inadmissibility relating to national security concerns. These permits must be approved by Citizenship and Immigration Canada. We reviewed the rationale provided in the file and found that it was clearly provided in two of the four cases. One of the cases had been incorrectly classified and was not related to national security. In the other case, the rationale was poorly documented.
- 7.18 In April 2004, the Agency committed to conducting random quality assurance checks to ensure that files relating to Temporary Resident Permits for individuals with serious criminality contain not only the correct information for the reason of inadmissibility, but also

documentation of the justification for issuing the permit. At the time of the audit, the Agency was in the process of developing a Process Monitoring Framework for issuing permits, but had not yet implemented its monitoring framework or random quality assurance checks. CIC and the Agency agree that both organizations must ensure the quality of Temporary Resident Permit decisions under the *Immigration and Refugee Protection Act*, but have not yet done so.

7.19 Once a permit is issued, the Agency does not monitor whether the individual complies with its terms and conditions, such as departure before the permit expires. Canada does not monitor the exit of travellers from the country, and therefore the Agency does not know whether individuals have left the country as required in their temporary permit. Compliance with the terms of the permit is reviewed on a case-by-case basis only if another event occurs to bring the individual to the attention of the Agency or law enforcement officers.

**7.20 Recommendation.** The Canada Border Services Agency and Citizenship and Immigration Canada should each develop and implement processes to ensure the quality of the Temporary Resident Permit program jointly delivered under the *Immigration and Refugee Protection Act*.

The Agency and Department's response. The Agency and Department agree. There is considerable policy and procedural direction in place for the Temporary Resident Permits (TRP) program. While recognizing funding limitations, we will pursue activities to improve the processes for monitoring the quality of program delivery. However, the TRP program would benefit from the development and implementation of a national quality assurance and monitoring program to improve consistency in the issuance process.

### Managing detentions and removals

### The Agency's information on detentions is incomplete

- 7.21 At ports of entry and within Canada, Agency officers may detain individuals if they believe the individual has contravened the *Immigration and Refugee Protection Act*, and if they
  - believe the individual will not appear for immigration proceedings, such as an examination or an admissibility hearing, or for removal from Canada;
  - · believe the individual poses a risk to the public; or
  - are not satisfied of the foreign national's identity.

7.22 Depending on the risk the individual poses and the facilities available in the area, individuals may be detained in either Agency holding centres, or provincial or municipal facilities. In the 2006–07 fiscal year, 72 percent of detainees were held in Agency holding centres and 28 percent were detained in provincial or other facilities (Exhibit 7.2). The average length of stay was considerably longer in provincial facilities as these individuals pose a higher risk. Throughout the period of detention or release on terms and conditions, the Agency is responsible for monitoring the individual.

Exhibit 7.2 Number of people detained since 2004

	In Agency holding facilities	
Fiscal year	Number of detainees	Total detention days
2004-05	7,553	84,200
2005–06	8,305	84,027
2006-07	9,261	80,610
/	In municipal or provincial facilities	
2004-05	3,214	153,293
2005–06	3,364	145,853
2006-07	3,563	144,105

Source: Canada Border Services Agency

7.23 The Agency could not provide precise counts on the number of individuals detained and the length of their detentions because of delays in data entry and systems that limit accurate reporting. As a result, the detention summary above is a best estimate. While each detention facility had this information, the Agency agrees that its ability to consolidate information at a national level could be improved through better data integrity and system enhancements. The Agency needs to ensure that it captures all the data necessary to allow proper analysis and management of the detention program.

#### **Detention decisions are inconsistent**

7.24 We expected that the Agency would detain people according to its policies and standards, and that detention decisions would be made in a consistent and fair manner. In our last audit, we found that the number of beds available in its holding centres could determine whether or not an individual would be detained. In our current audit,

we found that the detention policies provide substantial latitude in decision making. In its Action Plan presented to the Public Accounts Committee following its report on our 2003 audit, the government committed to developing a detention reporting framework that would monitor and report at a national level on the application of the detention policy. While the Agency has developed new reporting procedures for the detention program, these reports do not allow it to monitor the application of the detention policy. We found that the Agency does not collect suitable information to determine whether consistent and fair decisions regarding the detention and release of individuals is made regardless of their location.

1.25 In its assessment of individuals it wishes to detain, the Agency uses a risk-based approach to detain only those people it cannot identify, those who pose the greatest risk to public safety, or those who are flight risks. The decision to detain is based on the law, policies, and guidelines as applied by officers at the border and within Canada. We found that detention decisions were not made consistently. One region with limited holding space was more likely to release individuals on terms and conditions, while another region with more available beds held individuals for similar reasons until review by the Immigration and Refugee Board. If the number of people to be detained exceeds the available capacity, the Agency may exceed the capacity temporarily or may transfer some detainees to provincial facilities.

### **Immigration Holding Facilities**

The Canada Border Services Agency has three immigration holding facilities (Toronto—120 beds, Montreal (Laval)—150 beds, and Vancouver (Richmond)—27 beds). The Agency also houses detainees who pose a more serious risk or where space is not available in municipal facilities or provincial institutions. Throughout the period of detention, or release on terms and conditions, the Agency is responsible for monitoring the individual.

The Agency houses individuals detained under national security certificates in a dedicated detention facility near Kingston, Ontario. At the time of the audit, one person was detained at the facility, while another five were being monitored under alternative forms of detention (for example, a proximity monitoring ankle bracelet).

7.26 The Agency takes into account the cost of detaining individuals when there is little likelihood of a timely removal, and considers alternatives to detention on a risk basis. It has increasingly used alternatives to detention, such as releasing individuals with a requirement to appear and/or to post a bond (a sum of money or collateral deposited with the Crown) as a performance guarantee. We examined cash bonds provided as an alternative to detention.

We found that 368 of the 2,038 cash bonds posted in the 2004–05 fiscal year were forfeited as these individuals did not comply with the terms and conditions of their release. The Agency has since located 178 of these individuals, of which 146 have since been successfully removed. It does not know the whereabouts of the remaining 190 individuals who forfeited their cash bonds, and has issued immigration warrants for their arrest. The Agency has identified 18 of the 190 individuals as having a history of criminality.

7.27 While requiring a financial guarantee helps ensure that individuals comply with requirements, we found that the Agency does not analyze the extent to which individuals comply with the terms and conditions of their release. Nor has the Agency set standards or guidelines to determine whether the level of non-compliance results in undue risk to the public. While infrequent, there have been cases where individuals who have been released on condition committed violent crimes.

### Standards for detention facilities are not monitored

- 7.28 The Agency has established standards for the conditions at its facilities and for the treatment of individuals detained. These standards, developed in conjunction with the Canadian Council for Refugees and the United Nations High Commissioner for Refugees, address food, cleanliness, and the level of security provided by private security companies at its facilities. In November 2006, the Agency signed an updated agreement with the Canadian Red Cross to monitor conditions at its facilities. While the Canadian Red Cross has provided some oral reports to Agency officials on the conditions at its facilities, the Agency has not monitored the extent to which the facilities meet its standards at a national level. The Agency agrees that the program would benefit from the implementation of a national quality assurance program. We note that detainees who are held in municipal and provincial facilities are not separated from other inmates and must abide by the same rules and conditions.
- 7.29 The Agency does not have established processes to follow when the number of detainees exceeds the number of beds at its facilities. We noted that the Toronto holding centre has on occasion increased its regular capacity of 120 to 180 people by using sleeping bags and blankets on the floor. In another region, holding cells for individuals awaiting hearings, which are designed for 3 people, had been used to hold 10, without enough space for some to sit. The Agency needs to review the current and expected capacity at its immigration holding facilities.

### The Agency is not managing detention costs effectively

7.30 The cost of detention and the number of individuals detained are significant: the annual cost was \$36.3 million for the 12,824 individuals detained in the 2006–07 fiscal year (Exhibit 7.3). However, none of this information is readily available to the public. We found no information in the Agency's reports to Parliament or on its website on the costs or number of individuals detained.

Exhibit 7.3 The federal government spends an average of \$35 million a year to detain individuals (excluding the facility near Kingston)

CBSA facilities	Immigration holding facilities	Contractual costs (guard services)	All other costs	Total CBSA detention facility costs
2005-06	Toronto	\$4,078,235	\$4,178,868	\$8,257,103
	Montreal	4,232,568	3,052,140	7,284,708
	Vancouver	663,275	191,247	854,522
Total		4		16,396,333
2006–07	Toronto	4,247,369	3,923,410	8,170,779
	Montreal	4,198,356	2,898,973	7,097,329
	Vancouver	682,369	161,408	843,777
Total				16,111,885

Provincial facilities	Total CBSA payments for provincial facilities			
2005–06		\$18,838,766		
2006-07		20,188,444		

Source: Canada Border Services Agency

- 7.31 The cost to detain an individual in one of the Agency's holding centres (excluding the facility near Kingston) was about \$122 per day in the 2006–07 fiscal year. The cost of housing detainees in jails and provincial facilities varies, ranging from \$120 to \$238 per person per day.
- 7.32 While the Agency houses detainees in each province and territory, it has agreements in place with only two provinces. The Agency does not have agreements with the other provinces and does not routinely renegotiate the terms of existing agreements to ensure that the provinces meet the Agency's desired service levels in a cost-effective manner. Further, the Agency performs little oversight of the detention costs. It simply compares each region's overall

enforcement budget to expenditures. Officials told us that they believe that the rates the provinces charge are based on the cost to house provincial inmates and that they are reasonable compared with the cost to house federal inmates. However, unlike criminal inmates, immigration detainees do not participate in rehabilitation programs. Further, as previously noted, the Agency does not have good data on the number of people detained and length of detention at the national level. This information is essential to manage detention costs.

### Tracking and prioritizing removals has improved, but more work is needed

7.33 The integrity of Canada's immigration and refugee program depends on the effective implementation of its policy to remove individuals determined inadmissible to Canada, and on the voluntary compliance of individuals in the program. In our last audit, we noted a growing gap between the number of people ordered removed from Canada and the number of confirmed removals, and that this gap had grown by about 36,000 individuals over six years. The precise number of people remaining in Canada illegally is impossible to determine due in part to the lack of exit controls.

7.34 In June 2006, the Agency improved the reporting capabilities of its case management system and can now readily determine the number of individuals with removal orders that could be processed in its working inventory, as well as individuals with outstanding immigration warrants. As of September 2007, the Agency determined that there were about 63,000 individuals with either enforceable removal orders or outstanding immigration warrants for removal (Exhibit 7.4). The Agency's working inventory contains 22,000 individuals with enforceable removal orders, whose whereabouts are known to

Immigration warrant—A warrant for arrest and detention made under the *Immigration and Refugee Protection Act*.

Enforceable removal order—A removal order that comes into force because the individual has or seeks no further legal claim to remain in Canada.

Working inventory—The number of enforceable removal orders for which the location of the individual is known and the case is able to be processed.

Exhibit 7.4 While the number of removal cases in the working inventory has decreased, the number of outstanding immigration warrants has increased



Source: Canada Border Services Agency

the Agency. The remaining 41,000 cases are individuals with immigration warrants for removal, whose whereabouts are unknown to the Agency. As part of its case management practices, when the Agency is no longer able to contact or locate the individual with an enforceable removal order, it may issue an immigration warrant for arrest and remove the case from its working inventory.

7.35 Since our last audit, the Agency has increased the number of inadmissible individuals it removes from Canada, from about 8,700 in 2002–03, to about 12,600 in 2006–07 (Exhibit 7.5). The number of removals has averaged at 11,200 per year over the past five years, which corresponds to a relatively constant level of funding for the removals program over the same period. It should be noted that not all of the 22,000 cases in the working inventory are ready for removal, because the Agency is unable to obtain travel documents from certain countries, or due to airline and airport restrictions. The Agency was not able to provide a national breakdown of individuals who were or were not ready for removal within its working inventory. The Agency needs to track the status of cases at a national level according to its priority areas—which are to remove dangerous individuals and criminals first.

7.36 Through its Warrant Response Centre, the Agency adds information on immigration arrest warrant cases into its immigration enforcement database, which can then be viewed by law enforcement officers across the country using the Canadian Police Information Centre (CPIC) system. Agency officials told us that they do not perform specific investigations of the vast majority of these cases, since this could mean devoting resources in an attempt to find individuals who have already left the country. The Agency does not track the

Exhibit 7.5 The number of removals has increased over the past five years

Removals				
Years	Total	Percent of criminals		
2002–03	8,683	17		
2003–04	11,069	14		
2004-05	12,006	15		
2005–06	11,362	16		
2006–07	12,636	15		

Source Canada Border Services Agency

national number of individuals with immigration warrants for removal who were still under its investigation. Instead, if a police officer determines that an apprehended individual is subject to an outstanding immigration warrant, he or she brings this individual to the attention of the Agency for appropriate action.

- The Agency has recently improved its controls over entering warrants into enforcement databases. In October 2007, the Warrant Response Centre acquired software to assess the accuracy of immigration warrants entered into CPIC. As a result, it found several thousand errors relating to information details in immigration warrants issued. At the time of the audit, the Centre was in the process of developing a plan for correcting all the errors identified.
- In response to our 2003 audit, the Agency undertook a review of immigration warrants during the 2005-06 fiscal year. While we support the practice of regularly reviewing immigration warrants, we note that different criteria were used by different regional offices to decide which warrants were to be removed, based on the age of the individual and number of years without additional recorded criminality. This may have resulted in individuals who pose similar risks receiving different treatment as immigration warrants were cancelled for some individuals, while others with similar circumstances were not.

### The expected replacement for the National Case Management System has not materialized

- In our 2003 audit, we mentioned that officers had to enter data into both the Field Operations Support System (FOSS) and the National Case Management System (NCMS), both of which were administered by Citizenship and Immigration Canada. Although double entry is inefficient, no further action has been taken to resolve this issue. The Agency has instituted a data quality management process to minimize data quality errors in NCMS. It has also moved ahead in setting common standards for entering case information to improve data accuracy.
- 7.40 In its 2004 Action Plan, the government committed to improve its capacity to track removals cases while awaiting the implementation of a new case management system. NCMS was to have been replaced by the Global Case Management System (GCMS) in 2005. Approved as a Major Crown Project in 2001 led by Citizenship and Immigration Canada, the GCMS was designed to integrate 14 legacy systems, including NCMS and FOSS, which the Agency uses to manage the detentions and removals program. In April 2007, CIC and CBSA

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agreed to reduce the scope of GCMS to no longer include replacement of NCMS and FOSS. It was decided to retain NCMS to manage the detentions and removals program. As a result, the Agency's ability to track individuals in the detention and removal process remains limited, and the recommendations in our 2003 audit relating to case tracking and NCMS still need to be addressed.

- 7.41 In anticipation of GCMS, needed changes to NCMS were put on hold. We found that, because of the delays in the implementation of GCMS, regional offices have developed their own processes to identify the highest-priority cases for review. We found that the three major regional offices were able to determine whether or not criminal cases were being assigned priority. However, senior officials told us that their ability to track and prioritize removal cases remains limited, and system improvements are required to ensure consistency in case management and timely removal of priority cases at the national level. The Agency has recently begun to review and prioritize overdue systems changes for its existing National Case Management System.
- 7.42 The Agency received Public Security and Anti-Terrorism (PSAT) funding in the 2005–06 and 2006–07 fiscal years to focus on removing failed refugee claimants. Under the program, the Greater Toronto Region, which already had a dedicated unit in place, has removed about 8,200 failed refugee claimants and continues to operate the unit. The Quebec Region also received funding in 2006–07 and removed about 1,500 failed refugee claimants. It no longer operates this program.

### The Agency has improved its ability to make airlines responsible for removal costs

- 7.43 In its 2004 Action Plan, the government committed to improve the recovery of removal costs from airlines. In cases where an airline has carried an individual to Canada without proper documentation, it is the airline's responsibility to return the individual if required. The airline may also be charged an administrative fee to cover a portion of the Agency's costs to process the inadmissible individual. The full amount of the fee is \$3,200, which can be reduced by 25 to 100 percent if the carrier has a signed agreement with the Agency and demonstrates that it is complying with its terms.
- 7.44 At the time of our audit, the Agency had signed memoranda of understanding with 61 airline carriers. We found that the Agency has improved its linking of foreign nationals to their arrival airline carrier and charging the removal costs to the air carriers (Exhibit 7.6). The Agency requires that the carriers pay the associated costs for the removal of individuals where appropriate, even if it is several years

after the flight into Canada. For the 2006–07 fiscal year, the Agency collected \$452,000 in removal costs from airline carriers. However, the Agency has not determined the extent to which it has fully recovered the costs that it has assigned to the airlines.

Exhibit 7.6 The Agency has improved its linking of foreign nationals to their arrival airline

Percentage of confirmed departures linked to a carrier

## 

Fiscal year

Source: Canada Border Services Agency

### The need for escorts is determined on a case-by-case basis

7.45 For those individuals who are assessed as presenting a risk of violence or flight, officers are assigned to accompany them on their removal to their destination country. Not all individuals with a criminal history are escorted because their risk of violence or flight was determined to be low. However, some airlines require escorts for removals regardless of the risk assessment performed. Escorting an individual can cost thousands of dollars, depending on the destination and security requirements. We found that the Agency does not track the cost of removals with an escort on an individual basis, but calculated the total cost of 1,705 removals with an escort for the 2006–07 fiscal year as \$8.4 million. We believe that it is important for the Agency to track the cost of removals with an escort on an individual basis in order to ensure that it is performing this activity in a cost-effective manner. We found that risk assessments are performed to guide the decision and method of escort, but the decision is ultimately left to the supervisor and is based on his or her judgment. We found that the Agency does not have a program in place to ensure that risk assessment policies for escorted removals were applied in a consistent and cost-effective manner across all regions.

### Summary recommendations and Agency responses

**7.46** Recommendation. The Canada Border Services Agency should develop suitable policies and procedures for detentions and removals to ensure that risks, situations, and individuals are treated in a consistent manner.

The Agency's response. The Agency agrees. While significant policy and procedure direction is in place for the detentions and removals program at the national level, monitoring of the application of this work can be improved. We agree that the application and interpretation of these policies and procedures at the local level can give rise to issues of national program consistency and we agree to examine how this consistency can be improved within existing resource allocations.

**7.47 Recommendation.** The Canada Border Services Agency should improve its data and level of analysis to allow it to better manage detentions and removals.

The Agency's response. The Agency agrees. The Agency recognizes that although information exists in its systems, data integrity and systems limitations have prevented us from maximizing the use of this information to further support and improve the detentions and removals program. More effective information management would allow the Agency to improve business decisions, including those related to costs and risks. The Agency will endeavour to better utilize existing system capabilities and, with further funding, will undertake subsequent analytical efforts.

### Conclusion

- 7.48 The Canada Border Services Agency and Citizenship and Immigration Canada have articulated their respective accountabilities for detentions and removals through a memorandum of understanding. They are in the process of reviewing their respective experiences with the agreement to determine whether improvements are required to support the delivery of the program. However, we found that the Agency and the Department have not agreed on who is responsible for ensuring the consistency and quality of information supporting decisions to issue temporary residency permits.
- 7.49 We found that the Agency's policies and guidelines for detention provide substantial latitude in decision making. The Agency does not collect suitable information to determine whether these policies are

consistently applied, so that individuals, regardless of their location, receive consistent and fair decisions regarding their detention or release. As a result, we found that the Agency, at a national level, does not consistently manage the detention of individuals in compliance with its policies and standards. While the Agency uses alternatives to detention, such as the imposition of reporting requirements or security deposits, it does not monitor the level of compliance, which may result in undue risk to the public.

- 7.50 The Agency does not carry out certain aspects of detentions and removals with due regard to cost. The capacity of the Agency to detain individuals in its holding centres varies by location. Where the Agency uses provincial detention facilities, it has negotiated agreements with only two provinces. As a result, the Agency does not control the cost and level of service for detainees in these facilities. The Agency has limited information on the cost of removals at the national level, which prevents it from properly monitoring the delivery of the program. We also found that the Agency does not ensure that decisions to escort removals are made consistently and in a cost-effective manner.
- 7.51 Since our last audit, the Agency has made a number of improvements in its management of detentions and removals. It better estimates the number of outstanding cases and it focuses its efforts on removing the higher-risk individuals. The Agency has improved its identification of risks and tracking of individuals ready for removal. However, due in part to a lack of exit controls, there is a growing number of individuals whose whereabouts is unknown and who might remain in Canada illegally, thereby jeopardizing the integrity of the program.

### About the Audit

### **Objectives**

This chapter examines the management of detentions and removals by the Canada Border Services Agency, and the actions it has taken since our 2003 audit of Citizenship and Immigration Canada's control and enforcement program. Our specific audit objectives were the following:

- To determine whether there is a clear articulation of accountability between Citizenship and Immigration Canada and the Canada Border Services Agency to support consistent administration of the *Immigration and Refugee Protection Act*, and the adequacy of performance reporting for the detention and removal of individuals.
- To determine whether the Agency consistently manages the detention of individuals in compliance with its policies and standards, and with due regard to economy
- To determine whether the Agency manages the removal of individuals on the basis of risk and in a cost-effective manner.

### Scope and approach

We examined the detentions and removals program of the Canada Border Services Agency and, to the extent necessary, related functions of Citizenship and Immigration Canada. Some of our audit work involved selecting and testing a random sample of files to determine whether the Agency had complied with immigration policies for issuing Temporary Resident Permits to individuals with a history of serious criminality. The sample that we used provides a confidence interval of plus or minus 10 percent (with 90 percent confidence). Our 2003 audit examined a similar sample of permits issued to individuals with a history of serious criminality or of concern to national security. The samples may not provide comparable results because of their slightly different populations.

We did not examine primary and secondary immigration examinations conducted at ports of entry, as these were addressed in our October 2007 audit of the Agency's border operations. As well, we did not examine the role of Migration Integrity Officers posted overseas as it is outside the scope of this current audit.

#### Criteria

The audit was based on the following criteria:

- Departmental (CBSA and CIC) roles and responsibilities under the *Immigration and Repigee Protection*Act are clearly articulated and support consistent program delivery.
- The Agency monitors program activities to ensure consistency of decisions.
- The Agency reports on program activities in a fair and reasonable manner.
- The Agency detains individuals in compliance with its policies and stan laids, and in a consistent manner.
- · The Azene; ensures its illocation of resources for detentions are based in risk and are cost effective.

- The Agency has appropriate information and feedback systems to monitor program performance and assess the quality and consistency of decisions relating to removals.
- The Agency tracks and manages the cost of removals in a cost-effective manner.
- The Agency recovers removal costs in compliance with relevant legislation.

### Audit work completed

Audit work for this chapter was substantially completed on 31 December 2007.

### **Audit team**

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### Appendix List of recommendations

The following is a list of recommendations found in Chapter 7. The number in front of the recommendation indicates the paragraph where it appears in the chapter. The numbers in parentheses indicate the paragraphs where the topic is discussed.

### Recommendation Response Coordinating the shared mandate The Canada Border Services The Agency and Department agree. There is considerable policy Agency and Citizenship and and procedural direction in place for the Temporary Resident Immigration Canada should each Permits (TRP) program. While recognizing funding limitations, develop and implement processes to we will pursue activities to improve the processes for monitoring ensure the quality of the Temporary the quality of program delivery. However, the TRP program Resident Permit program jointly would benefit from the development and implementation of a delivered under the Immigration and national quality assurance and monitoring program to improve Refugee Protection Act. (7.12-7.19) consistency in the issuance process.

### Managing detentions and removals

7.46 The Canada Border Services Agency should develop suitable policies and procedures for detentions and removals to ensure that risks, situations, and individuals are treated in a consistent manner. (7.21–7.45)

7.47 The Canada Border Services Agency should improve its data and level of analysis to allow it to better manage detentions and removals. (7.21–7.45)

The Agency agrees. While significant policy and procedure direction is in place for the detentions and removals program at the national level, monitoring of the application of this work can be improved. We agree that the application and interpretation of these policies and procedures at the local level can give rise to issues of national program consistency and we agree to examine how this consistency can be improved within existing resource allocations.

The Agency agrees. The Agency recognizes that although information exists in its systems, data integrity and systems limitations have prevented us from maximizing the use of this information to further support and improve the detentions and removals program. More effective information management would allow the Agency to improve business decisions, including those related to costs and risks. The Agency will endeavour to better utilize existing system capabilities and, with further funding, will undertake subsequent analytical efforts.



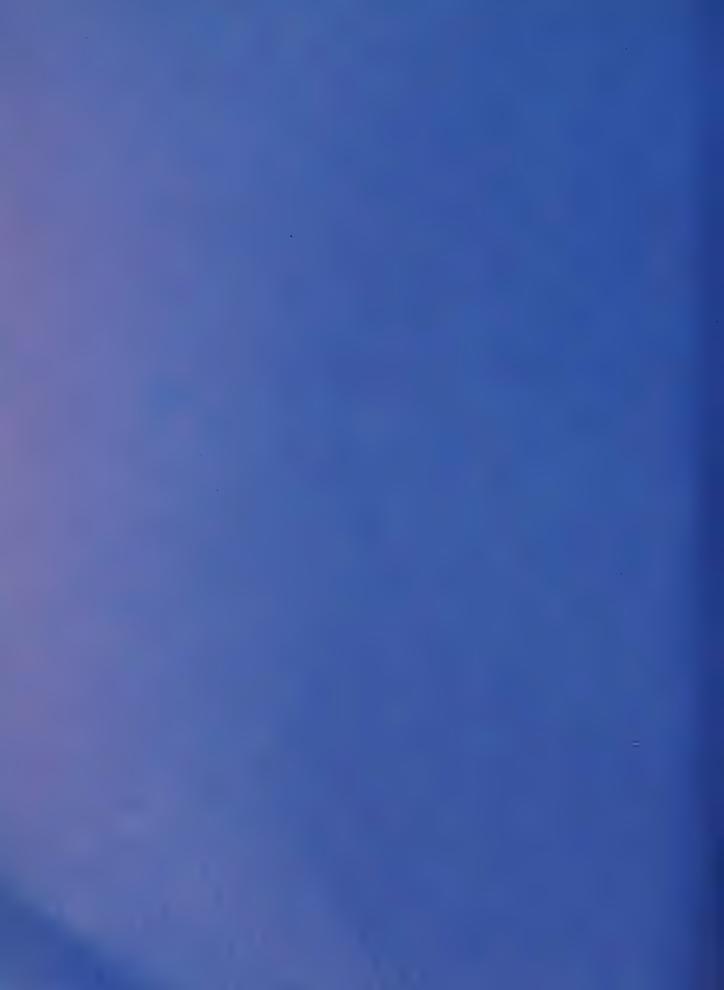
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Report of the
Auditor General
of Canada
to the House of Commons

MAY

Chapter 8
Special Examinations of Crown Corporations—
An Overview



Office of the Auditor General of Canada



# 2008



Report of the

# Auditor General of Canada

to the House of Commons

MAY

Chapter 8

Special Examinations of Crown Corporations— An Overview



The May 2008 Report of the Auditor General of Canada comprises A Message from the Auditor General of Canada, Main Points—Chapters 1 to 8, and eight chapters. The main table of contents for the Report is found at the end of this publication.

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## Chapter

8

Special Examinations of Crown Corporations

An Overview



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# Special Examinations of Crown Corporations

### An Overview

### **Main Points**

### What we examined

Crown corporations form a significant part of the federal public sector. Federal Crown corporations employ about 90,000 people, manage more than \$185 billion in assets, and have long-term liabilities of about \$145 billion. These distinct legal entities, wholly owned by the government, are used to deliver important public programs. They operate in many sectors of the Canadian economy, including transportation, energy and resources, agriculture and fisheries, financial services, culture, and government services.

At least once every five years, Crown corporations, wholly owned directly by the Government of Canada (parent Crown corporations), that fall under the *Financial Administration Act* (FAA) undergo a special examination—which is a type of performance audit that the Auditor General of Canada carries out, as sole examiner in most cases and as joint examiner in a few cases. By February 2008, 44 Crown corporations were subject to the special examination requirement of the FAA.

In this chapter, we provide an overview of our special examination practice drawn from the special examinations we carried out between December 2002 and February 2008. We also look at the impact of legislative and other changes since December 2000 when we last reported to Parliament on our special examination practice. Finally, we provide summaries of the key findings of the 11 special examinations reported since January 2006.

### Why it's important

A special examination is an important accountability mechanism. It provides independent assurance to the board of directors of a Crown corporation that systems and practices are in place to ensure that the corporation's assets are safeguarded and controlled; its financial, human, and physical resources are managed economically and efficiently; and its operations are carried out effectively.

Any major weakness in the corporation's key systems and practices that could prevent it from achieving its objectives is reported by the examiner as a significant deficiency.

### What we found

- Fewer than 25 percent of the 37 special examinations covered in our overview found that the systems and practices examined had significant deficiencies. This is an improvement over our 2000 Report, when we noted that 48 percent of special examinations found significant deficiencies.
- The significant deficiencies identified by the special examinations covered in this overview related most often to problems in carrying out the corporation's mandate. The underlying causes were funding issues, a lack of strategic direction or clear expectations, or major gaps in the corporation's performance information.
- Special examination reports also bring opportunities for improvement to a board's attention. Special examinations have most often found those opportunities to be in the areas of corporate governance (including corporate and strategic planning), performance measurement, risk management, operations, and human resources management.
- In the March 2004 Budget, the government announced its intention
  to introduce a requirement that Crown corporations post special
  examination reports of the Auditor General on their websites. All of
  our special examination reports since then have been posted by the
  Crown corportations examined. These public reports represent an
  opportunity for Parliament to understand how the corporations
  operate and to increase accountability.
- Following a recommendation in the government's 2005 review of Crown corporation governance, Parliament amended the Financial Administration Act to increase the number of Crown corporations subject to special examination and to have the Office of the Auditor General carry out the examinations. The review recommended a more flexible system that would schedule the frequency of special examinations based on the level of risk inherent in the corporation's operations and that would require the tabling of special examination reports in Parliament. The Treasury Board of Canada Secretariat has informed us that the government is developing proposed legislative amendments that would provide for a more flexible risk-based approach to scheduling special examinations and would formally require that Crown corporations release reports to the public.

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### Introduction

### Importance of Crown corporations

- 8.1 Crown corporations are distinct legal entities. There are two types of Crown corporations: those that are wholly owned directly by the Government of Canada (parent Crown corporations) and those that are wholly owned by other Crown corporations (subsidiaries). They operate in many sectors of the Canadian economy, including transportation, energy, agriculture and fisheries, financial services, culture, and government services. Crown corporations vary widely in size and in the level of financial support they receive from the government.
- **8.2** As of 31 July 2007, federal Crown corporations employed some 90,000 people, managed more than \$185 billion in assets, and had long-term liabilities of about \$145 billion. During the 2006–07 fiscal year, these corporations received a total of about \$5 billion in parliamentary funding.
- **8.3** Crown corporations have more autonomy than most other government entities, in part because they have commercial objectives as well as public policy objectives. A board of directors oversees the management of each corporation and holds management responsible for the corporation's performance. The board of a parent Crown corporation is, in turn, accountable to Parliament through the responsible minister.
- **8.4** Under Part X of the *Financial Administration Act* (FAA), the Auditor General is appointed to conduct independent audits of the annual financial statements of each Crown corporation, either on her own or with a private sector audit firm, unless she waives the appointment.

### Role of special examinations

- 8.5 Each parent Crown corporation that is subject to Part X of the FAA is required to have a **special examination** conducted at least once every five years. A special examination is normally carried out by, the auditor or joint auditors of the Crown corporation. It provides an independent opinion on whether there is reasonable assurance that a Crown corporation has systems and practices in place to ensure that
  - assets are safeguarded and controlled;
  - financial, human, and physical resources are managed economically and efficiently; and
  - · operations are carried out effectively.

A special examination is a type of performance audit that strengthens corporate accountability.

- **8.6** A special examination report can contain one of three opinions. One conclusion is that there was reasonable assurance that there were no "significant deficiencies" in the systems and practices to achieve the objectives above. Another is that there is one or more significant deficiency. In addition, in rare situations, the examiner may find there is no reasonable assurance that a corporation's systems and practices achieve the objectives.
- 8.7 Under the FAA, special examinations are reported to the board of directors of a Crown corporation. The legislation also permits the examiner, after consulting the board of directors, to bring information from the special examination to the attention of the appropriate minister. After consulting the board and the appropriate minister, the examiner may also require that the corporation bring such information to Parliament's attention, by including the information in its annual report.
- 8.8 Virtually all parent Crown corporations, and those directed to act as parent Crown corporations, are now subject to special examinations under the FAA. The Bank of Canada and the Canada Pension Plan Investment Board have unique governance structures and do not fall under FAA special examination requirements. However, the Canada Pension Plan Investment Board is required under its own act to undergo a special examination, at least once every six years.
- 8.9 The scope of a special examination covers both the parent Crown corporation and all of its wholly owned subsidiaries. By February 2008, 44 Crown corporations were subject to special examinations under the FAA. Exhibit 8.1 lists these corporations as well as two corporations that are no longer subject to a special examination: the Queens Quay West Land Corporation, which was recently dissolved, and the Cape Breton Growth Fund Corporation, which is no longer directed to act as a parent Crown corporation.
- **8.10** Special examinations provide an opinion on the operations of a Crown corporation for a specific period of time. Our work in this area is ongoing to meet the five-year reporting requirement established by Parliament. By February 2008, special examinations of the following corporations were in progress, and the reports are expected to be completed in 2008:
  - Canada Council for the Arts,
  - Canada Mortgage and Housing Corporation,
  - Defence Construction (1951) Limited,

- Federal Bridge Corporation Limited,
- Great Lakes Pilotage Authority,
- International Development Research Centre,
- · Parc Downsview Park Inc., and
- · VIA Rail Canada Inc.
- **8.11** The legislation requiring special examinations was initially passed in 1984. We last reported on the results of our special examinations in the December 2000 Report of the Auditor General, Chapter 18. Now that special examinations are becoming publicly available, we intend to annually publish brief summaries of recently issued reports in the Auditor's General Report to Parliament.

### Focus of the chapter

- **8.12** In this chapter, we provide information about the Office's special examination practice. In particular, we describe the
  - increase in the number of Crown corporations subject to a special examination by the Office of the Auditor General;
  - increased public reporting of special examination results by Crown corporations; and
  - changes in Crown corporation governance, proposed or implemented by the government, that directly affect our special examination practice.
- 8.13 We also provide information about and a statistical summary of key results from special examinations that we reported between December 2002 and 29 February 2008. Where more than one special examination was issued for a Crown corporation in that period, this chapter reports on the most recent one. We report on the results from 37 special examinations.
- 8.14 In addition, the Appendix contains the key findings of recent special examination reports—issued between January 2006 and February 2008—that have been made public by Crown corporations.
- 8.15 More details about the chapter's objective, scope, and approach are in **About the Chapter** at the end of this chapter.

Exhibit 8.1 Crown corporations that are or have been recently subject to special examination by the Office of the Auditor General (OAG)

	Crown corporation	Date report was issued to the Board of directors	Examiner(s)	Report made public	Significant deficiencies found
1	Atlantic Pilotage Authority	13 June 2007	OAG	Yes	No
2	Atomic Energy of Canada Limited	28 August 2007	OAG	Yes	Yes
3	Blue Water Bridge Authority	17 September 2007	OAG	Yes	Yes
4	Business Development Bank of Canada	15 July 2004	Joint: OAG and KPMG	Yes	No
5	Canada Council for the Arts	First became subject to special examination in June 2005	N/A	N/A	N/A
6	Canada Deposit Insurance Corporation	23 November 2004	OAG	Yes	No
7	Canada Development Investment Corporation	23 February 2004	Joint: OAG and KPMG	N/A (report issued before the government announced its intention to introduce new corporate governance rules)	No
8	Canada Lands Company Limited	5 June 2006	OAG	Yes	No
9	Canada Mortgage and Housing Corporation	31 May 2004	Joint: OAG and Mallette	Yes	No
10	Canada Post Corporation	First became subject to special examination by OAG in June 2005	Previous examinations carried out by a private sector auditor		
11	Canadian Air Transport Security Authority	5 December 2006	OAG	Yes	Yes
12	Canadian Broadcasting Corporation	21 November 2005	OAG	Yes	Yes
13	Canadian Commercial Corporation	13 September 2004	OAG	Yes	Yes
14	Canadian Dairy Commission	29 June 2005	OAG	Yes	No
15	Canadian Museum of Civilization Corporation	10 March 2006	OAG	Yes	No
16	Canadian Museum of Nature	21 February 2007	OAG	Yes	No
17	Canadian Race Relations Foundation	First became subject to special examination in June 2005	N/A	N/A	N/A
18	Canadian Tourism Commission	11 April 2006	OAG	Yes	Yes
19	Cape Breton Development Corporation	18 February 2008	OAG	Yes	No
20	Cape Breton Growth Fund Corporation	28 November 2005	OAG	Yes	No
21	Corporation for the Mitigation of Mackenzie Gas Project Impacts	New Crown corporation created in 2006	N/A	N/A	N/A
22	Defence Construction (1951) Limited	30 May 2003	OAG	Yes	No
23	Enterprise Cape Breton Corporation	13 October 2004	OAG	Yes	No

Exhibit 8.1 Crown corporations that are or have been recently subject to special examination by the Office of the Auditor General (OAG) (continued)

	Crown corporation	Date report was issued to the Board of directors	Examiner(s)	Report made public	Significant deficiencies found
24	Export Development Canada	8 July 2004	OAG	Yes	No
25	Farm Credit Canada	11 September 2007	OAG	Yes	No
26	Federal Bridge Corporation Limited	25 July 2003	OAG	Yes	No
27	First Nations Statistical Institute	New Crown corporation created in 2006	N/A	N/A	N/A
28	Freshwater Fish Marketing Corporation	3 March 2005	OAG	Yes	l No
29	Great Lakes Pilotage Authority	23 December 2002	OAG	N/A (report issued before the government announced its intention to introduce new corporate governance rules)	No
30	International Development Research Centre	5 March 2003 (at the request of the Corporation, before being required in June 2005)	OAG	Yes	No
31	Laurentian Pilotage Authority	15 July 2005	OAG	Yes	Yes
32	Marine Atlantic Inc.	27 August 2004	OAG	Yes	Yes
33	National Arts Centre Corporation	First became subject to special examination in June 2005	OAG (in 1998, at request of the . Corporation)	N/A	N/A
34	National Capital Commission	1 November 2007	OAG	Yes	No
35	National Gallery of Canada	14 April 2005	OAG	Yes	No
36	National Museum of Science and Technology	3 June 2005	OAG	Yes	No
37	Old Port of Montréal Corporation Inc.	22 June 2005	OAG	Yes	Yes
38	Pacific Pilotage Authority	21 November 2003	OAG	Yes	No
39	Parc Downsview Park Inc.	First became subject to special examination by OAG in 2003 (designated parent)	NA	NΑ	N A
40	Poblic Sector Pension Investment Board	Earst Lecaure's Liject to special examination by OAG in June 2005	President material artists of the private sector auditor		
41	Queens Quay West Land Corporation	27 September 2005	OAG	N/A (Corporation dissolved 31 March 2006)	No
42	Ridley Terminals Inc.	6 December 2005	OAG	Yes	No
43	Royal Canadian Mint	25 May 2005	OAG	Yes	No
44	Standards Council of Canada	6 October 2004	OAG	Yes	No
45	Telefilm Canada	First became subject to special examination in June 2005	N/A	N/A	N/A

Exhibit 8.1 Crown corporations that are or have been recently subject to special examination by the Office of the Auditor General (OAG) (continued)

	Crown corporation	Date report was issued to the Board of directors	Examiner(s)	Report made public	Significant deficiencies found
46	VIA Rail Canada Inc.	28 May 2003	OAG	N/A (report issued before the government announced its intention to introduce new corporate governance rules)	No

### **Observations**

# Increasing the number of special examinations

**8.16** The number of Crown corporations subject to special examinations by the Auditor General has risen from 31 to 44—an increase of more than 40 percent—since our last report, in December 2000. The increase is due to legislative changes and an increase in the number of parent Crown corporations.

Legislative changes have led to more special examinations by the Office of the Auditor General

- **8.17** In June 2005, Parliament amended the *Financial Administration Act*. As a result, five Crown corporations (Canada Council for the Arts, the Canadian Broadcasting Corporation, the International Development Research Centre, the National Arts Centre Corporation, and Telefilm Canada) are now subject to special examinations under the FAA.
- **8.18** We had conducted special examinations of some of these corporations before they were subject to examination under the FAA. For example:
  - The Canadian Broadcasting Corporation was previously subject to special examinations under the *Broadcasting Act*.
  - In 2003, we conducted a special examination of the International Development Research Centre, at the request of the Corporation.
  - In 1998, we conducted a special examination of the National Arts Centre Corporation, at the request of the Corporation.
- **8.19** Before the 2005 FAA amendments, the financial statements of certain Crown corporations were audited by private sector auditors. Since the amendments, the Office of the Auditor General is appointed the auditor or joint auditor of all Crown corporations (except the Bank

of Canada and the Canada Pension Plan Investment Board) unless the Auditor General waives the appointment.

8.20 Since the external auditor also normally carries out the special examination of a Crown corporation, the number of special examinations carried out by the Office of the Auditor General has increased. We are now conducting special examinations (as examiner or joint examiner) of the Canada Post Corporation and the Public Sector Pension Investment Board; both were previously examined by private sector auditors. As part of the 2005 amendments to the FAA, the Canadian Race Relations Foundation became subject to the special examination requirements, and we were appointed as auditor.

### An increase in the number of parent Crown corporations has led to more special examinations

- 8.21 Since our December 2000 report, the number of parent Crown corporations has increased.
- 8.22 Parliament has authorized the creation of the following four parent Crown corporations:
  - · Canadian Air Transport Security Authority,
  - · Canadian Tourism Commission,
  - Corporation for the Mitigation of Mackenzie Gas Project Impacts (not yet active), and
  - First Nations Statistical Institute.
- 8.23 There were also changes in the status of Crown corporations as parent corporations. The Blue Water Bridge Authority was designated a parent Crown corporation in 2002. In addition, two subsidiary corporations—Parc Downsview Park Inc., a subsidiary of Canada Lands Company Limited, and the Cape Breton Growth Fund Corporation, a subsidiary of Enterprise Cape Breton Corporation were directed to act as parent Crown corporations under the FAA.
- 8.24 However, the order directing Cape Breton Growth Fund Corporation to act as a parent Crown corporation was revoked by the government on 7 June 2007. One parent Crown corporation, Queens Quay West Land Corporation, was dissolved on 31 March 2006.

### Making reports public

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Crown corporations are posting reports from the Auditor General on their websites

8.25 As part of measures designed to strengthen management and accountability, in the March 2004 Budget, the Government of Canada announced that it intended to introduce new corporate governance rules that would require Crown corporations to post special examination reports from the Auditor General on their websites. Since then, all 29 special examination reports the Office has issued to Crown corporations (that are still active) have been made public by the individual corporations (Exhibit 8.1).

- 8.26 The special examination for Queens Quay West Land Corporation is not public because the corporation was dissolved. Four Crown corporations posted special examination reports on their websites before the March 2004 Budget (Defence Construction (1951) Limited, Federal Bridge Corporation Limited, the International Development Research Centre, and Pacific Pilotage Authority).
- **8.27** Unlike our performance audits of federal departments and agencies, special examinations have rarely been the subject of parliamentary hearings. The public release of many special examinations provides an opportunity for committees to hold Crown corporations accountable.
- **8.28** We have only been able to identify three occasions in the last 10 years when special examination reports were the focus of a parliamentary hearing:
  - In February 1999, the Auditor General appeared before the House of Commons Standing Committee on Canadian Heritage to discuss the findings of a 1998 special examination of the National Arts Centre Corporation that had been requested by the Board of Trustees of that organization.
  - In May 2007, the Auditor General appeared before the House of Commons Standing Committee on Canadian Heritage to discuss the findings of the 2005 special examination of the Canadian Broadcasting Corporation.
  - In early 2008, the Auditor General appeared before the House of Commons Standing Committee on Natural Resources during the committee's hearings on Atomic Energy of Canada Limited.

### **Changing governance expectations**

# The government has implemented measures intended to strengthen Crown corporation governance

**8.29** In February 2004, the government announced that it would undertake a comprehensive review of the accountability framework for Crown corporations. The government's intention to carry out the review was reiterated in the 2004 Budget, along with an intention to introduce new corporate governance rules. In February 2005, the

government released its report, Meeting the Expectations of Canadians: Review of the Governance Framework for Canada's Crown Corporations, which proposed 31 measures to strengthen the governance of Crown corporations. The proposed measures will affect all Crown corporations (except the Bank of Canada and the Canada Pension Plan Investment Board, which have their own governance structures).

**8.30** The following four measures, proposed in the 2005 review, are directly related to special examinations:

- Measure 26. The government proposed amending relevant legislation to allow for the appointment of the Auditor General of Canada as the external auditor or joint auditor for all Crown corporations (except the Bank of Canada and the Canada Pension Plan Investment Board, which have their own governance structures). This measure was enacted in the June 2005 amendments to the Financial Administration Act.
- Measure 27. The government proposed changes to the legislation to give the Office of the Auditor General of Canada the authority to conduct special examinations of all Crown corporations (except for the Bank of Canada and the Canada Pension Plan Investment Board, which have their own governance structures). This measure was enacted in the June 2005 amendments to the Financial Administration Act.
- Measure 28. The government proposed establishing a more flexible system for the timing of special examinations, to reflect the level of risk inherent in a corporation's operations. It proposed that all corporations undergo a special examination every eight years, at a minimum, instead of every five years (the current requirement).

We supported increased flexibility in scheduling special examinations, and an increase in the minimum time between special examinations, because it recognized that the risks in and significance of Crown corporation operations varied considerably. Legislation to implement this measure has not yet been introduced.

However, the Treasury Board of Canada Secretariat has informed us that it is developing proposals to amend the legislation. These amendments would provide a more flexible risk-based approach to scheduling special examinations and would require that a special examination be conducted at least once every ten years. The proposed legislation would also provide the Auditor General, the responsible minister,

the board of directors, and the Governor in Council with the authority to require special examinations more frequently.

• Measure 29. The government proposed requiring that each special examination report, prepared by the Auditor General, be submitted to the board of directors, the responsible minister, the Treasury Board, and Parliament. The legislative amendment to require tabling of special examination reports in Parliament has not yet been introduced.

However, the Secretariat has informed us that, in order to increase transparency and openness, the government is developing proposals to amend the legislation. These amendments would make the current practice by Crown corporations of voluntarily releasing special examination reports to the public a requirement. The government also proposed developing a protocol to protect the release of sensitive commercial information of Crown corporations when special examinations are published. We do not believe that such a protocol is necessary because we have practices in place to prevent the release of sensitive information.

# Summarizing special examination results

Significant deficiency A major weakness in a Crown corporation's key systems and practices that could prevent it from having reasonable assurance that its assets were safeguarded and controlled, its resources were managed efficiently and economically, or its operations were carried out effectively.

### Special examination reports provide three types of opinions

- **8.31** A special examination report contains one of three opinions:
  - a clean opinion—the examiner found no significant deficiencies in the corporation's systems and practices;
  - a clean opinion except for one or more significant deficiencies—major problems that should be of concern to the corporation's board of directors; or
  - an adverse opinion—the corporation's systems and practices do not ensure that the requirements of Part X of the FAA are met that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out efficiently.
- **8.32** The most recent special examination of the following nine Crown corporations reported one or more significant deficiencies:
  - Atomic Energy of Canada Limited, 2007 (a summary of this report appears in the Appendix);
  - Blue Water Bridge Authority, 2007 (a summary of this report appears in the Appendix);

- Canadian Air Transport Security Authority, 2006 (a summary of this report appears in the Appendix);
- Canadian Broadcasting Corporation, 2005;
- Canadian Commercial Corporation, 2004;
- Canadian Tourism Commission, 2006 (a summary of this report appears in the Appendix);
- Laurentian Pilotage Authority, 2005;
- Marine Atlantic Inc., 2004; and
- Old Port of Montréal Corporation Inc., 2005.
- **8.33** Between December 2002 and February 2008, the Office of the Auditor General found no significant deficiencies in 76 percent (28 of 37) of the special examinations it reported on. In comparison, in the Office's last report on the special examination practice in December 2000, it found no significant deficiencies in 52 percent (15 of 29) of special examinations.

# Some special examinations are reported to the appropriate minister as well as the boards of directors

- 8.34 The Financial Administration Act requires special examinations to be reported to the board of directors of a Crown corporation. After consulting the board of directors, the examiner may bring information from a special examination report to the attention of the appropriate minister. In addition, after consulting the board and the appropriate minister, the examiner may also require that the Corporation bring such information to Parliament's attention by including the information in its annual report.
- **8.35** The following are examples of when information may be brought to the attention of the appropriate minister or Parliament:
  - There is a significant deficiency that is beyond the corporation's ability to address on its own, or there are other issues that do not represent a significant deficiency but that the Auditor General believes should be brought to the responsible minister's attention.
  - Significant deficiencies noted in a previous special examination have not been adequately addressed.
  - Several significant deficiencies have been identified in a corporation's systems and practices.

- **8.36** Between December 2002 and February 2008, we sent special examination reports for the following corporations to the responsible minister:
  - Atomic Energy of Canada Limited, 2007 (a summary of this report appears in the Appendix);
  - Blue Water Bridge Authority, 2007 (a summary of this report appears in the Appendix);
  - Canadian Air Transport Security Authority, 2006 (a summary of this report appears in the Appendix);
  - Farm Credit Canada, 2007 (a summary of this report appears in the Appendix);
  - Laurentian Pilotage Authority, 2005;
  - National Capital Commission, 2007 (a summary of this report appears in the Appendix); and
  - Old Port of Montréal Corporation Inc., 2005.
- **8.37** When a special examination report is sent to the responsible minister, the Auditor General offers to meet with that minister to explain the context and significance of our findings.
- **8.38** We did not require Crown corporations to bring any of the 37 special examinations reports discussed in this chapter to the attention of Parliament. However, most Crown corporations have made these reports available to the public (Exhibit 8.1).

### Significant deficiencies included challenges in meeting corporate mandates

- **8.39** Of the nine of the special examinations that included one or more significant deficiencies, five reported that the Crown corporation was finding it difficult to meet specific aspects of its corporate mandate. The reasons given for these difficulties included
  - funding issues,
  - a need for clear strategic direction,
  - a need to resolve issues related to the relationship with the government, and
  - a lack of information to demonstrate that the mandate is being achieved.
- **8.40** In our reports, we have noted a number of instances where Crown corporations had major weaknesses, including not having the necessary performance information to support setting performance

targets and monitoring results. Our reports also noted significant deficiencies that were unique to the corporation's operations, including contracting, planning and ensuring accountability for marketing activities, risk management, and implementing change management.

### Opportunities for improvement may be identified

- **8.41** In addition to reporting on significant deficiencies, our special examination reports provide information to boards of directors about other opportunities for improvement (Exhibit 8.2).
- **8.42** The most common areas where we noted opportunities for improvement were in corporate governance (including corporate and strategic planning), performance measurement, risk management, operations, and human resources. (For specific examples of improvements recommended in our special examinations, see the summaries in the Appendix.)

Exhibit 8.2 Opportunities for improvement identified in the 37 special examinations

Systems and practices (areas)	Number (and percentage) of Crown corporations with opportunities for improvement
Corporate governance	31/37 (84%)
Performance measurement	28/37 (76%)
Risk management	27/37 (73%)
Planning	26/37 (70%)
Human resources	24/37 (65%)
Operations	24/37 (65%)
Environment	18/37 (49%)
Information management / Information technology	18/37 (49%)
Safeguarding/controlling assets	18/37 (49%)
Marketing	15/37 (41%)
Financial management	10/37 (27%)
Internal audit	9/37 (24%)
Contracting	8/37 (22%)
Compliance with authorities	2/37 (5%)
Other	11/37 (30%)

In our December 2000 summary of our special examination practice, we noted that the most common areas for improvement were corporate and strategic planning, performance measurement and reporting, operations, and human resources management. We continue to regularly report the need to improve these systems and practices, which are fundamental to the management of Crown corporations.

### Conclusion

- 8.44 More than 75 percent of the 37 special examinations that we report on in this chapter had no significant deficiencies in the systems and practices examined. In many cases where significant deficiencies were reported, they could be resolved by the board. However, we brought seven special examinations to the attention of the responsible minister.
- In addition to significant deficiencies, opportunities for improvement to be brought to the attention of boards of directors are included in most of these special examinations. The most common opportunities for improvement are in corporate governance (including corporate and strategic planning), performance measurement, risk management, operations, and human resources. Issues in these areas have often been reported in previous special examinations.
- Since the March 2004 Budget, when the government announced its intention to introduce new corporate governance rules to require that special examination reports from the Auditor General be posted on the Crown corporations' websites, Crown corporations have posted all special examination reports. These public reports represent an opportunity for Parliament to understand the operations of these corporations and increase accountability.
- As a result of the government's 2005 review of Crown corporation governance, measures have been implemented to increase the number of Crown corporations subject to special examination by the Office of the Auditor General. In addition, the review called for the establishment of a more flexible system for scheduling special examinations, based on the level of risk inherent in the corporation's operations and a requirement for Crown corporations to publicly release special examination reports. The government is developing the required legislative amendments that would provide for a more flexible risk-based approach to scheduling special examinations and formalize the current Crown corporation practice of publicly releasing the reports.

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## About the Chapter

### Objective

Our objective was to bring to the attention of Parliament the significant changes in the special examination practice and results of the Office of the Auditor General's special examinations.

### Scope and approach

The scope of the chapter included the following:

- Thirty-seven special examinations, where the Auditor General was examiner or joint examiner, reported to boards of directors between December 2002 and February 2008. If more than one special examination was issued to a corporation in this period, we only report on the most recent one.
- · Legislative changes that have had an impact on the Office's special examination practice.
- Government announcements and reviews affecting Crown corporation governance and reporting.

The approach to this chapter consisted of summarizing information that already existed. Therefore, this chapter did not require separate criteria. Instead, the approach used was to

- · provide information about what a special examination is,
- describe legislative and other changes that have affected the special examination practice since our last report on this practice in December 2000,
- · provide overall information about the results of special examinations, and
- summarize the key findings of recent special examinations.

The special examinations summarized in this chapter are those that were reported between 1 January 2006 and 29 February 2008 and that have been made public by Crown corporations.

#### Audit team

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## Appendix Special examinations that have been reported since January 2006 and have been made public

The following are summaries of the special examinations that have been reported since January 2006 and have been made public. Complete descriptions of our findings are in the special examination reports that are available on each Crown corporation's website. Readers should note that circumstances may have changed since we provided the boards of directors with our special examination reports. In many cases, the corporation has developed an action plan for resolving the issues that we reported.

### Atlantic Pilotage Authority—Special Examination Report 2007

#### What we examined

The Atlantic Pilotage Authority provides licensed marine pilots to ships in Atlantic Canada to assist ship masters and officers in transiting ports, harbours, and waterways. The Authority establishes where pilotage is compulsory, what ships are subject to it, and in what circumstances exemptions from pilotage are granted. It also sets out the conditions for obtaining pilotage licences and certificates.

The Authority reports to Parliament through the Minister of Transport, Infrastructure and Communities. In 2006, the Authority's revenues were about \$14.9 million and its operating expenses about \$15.7 million; it employed 45 pilots and had 10 contracted pilots. Our special examination covered the period between November 2006 and March 2007.

### Why it's important

Pilotage contributes to public safety by minimizing accidents and risks to the environment. It is important that the Atlantic Pilotage Authority ensure that ships enter, leave, or transit within the Atlantic Canada pilotage area as safely as possible. It is also important that the rates the Authority charges for pilotage services are fair and reasonable while providing the revenue needed to fund its operations.

### What we found

We identified no significant deficiencies in the systems and practices we examined. We noted some progress since our last examination and some areas for improvement.

- The Authority had been able to establish pilotage charges that are fair and reasonable while ensuring
  its financial self-sufficiency.
- It did not have a formal, comprehensive risk management framework that would assess the likelihood and impact of risks across the entire organization or a strategy to manage these risks.
- Senior management and the Board of Directors clearly understood their roles and responsibilities, and all Board members had received orientation training. The Authority needed to assess the inclusion of employee and industry representatives on the Board, because it created inherent conflict of interest.
- While pilots' qualifications and training were tracked, regular appraisals of their performance were needed.

### Atomic Energy of Canada Limited—Special Examination Report 2007

#### What we examined

Atomic Energy of Canada Limited (the Corporation), which reports to Parliament through the Minister of Natural Resources, is responsible for most nuclear research and development in Canada. It also designs and sells nuclear power reactors and other products, provides related services to nuclear utilities worldwide, and produces a significant portion of medical isotopes used worldwide in the diagnosis and treatment of disease. The Corporation employs more than 4,000 staff. Our special examination covered the period from September 2006 to March 2007.

### Why it's important

In a highly regulated nuclear industry, it is important that the Corporation comply with standards and regulations set by regulatory bodies in Canada and abroad. At the same time, it needs to capitalize on the emerging nuclear market, attract new business, and replace some of its aging facilities.

#### What we found

We found a significant deficiency in the Corporation's ability to resolve three strategic challenges that entail long-term funding requirements and that together would impair its ability to achieve its mandate.

• The first challenge was the completion and licensing of the Dedicated Isotope Facility for the production of medical isotopes, originally planned for November 2000. Completion had been delayed to 2008 and 2009 for the two reactors. At the end of March 2007, significant investments were still needed. Moreover, the regulator had identified technical issues that the Corporation had yet to fully resolve. The second challenge was the development and licensability of the Advanced CANDU Reactor (ACR) in time for the market requirement. Due to market conditions, the Corporation changed its design product to a larger reactor. The design change, more stringent licensing requirements, and an enhanced project management approach resulted in a significant increase in the cost estimates. At the end of March 2007, costs to complete the ACR were estimated at \$400 million. In addition, the regulator withdrew its service of providing the Corporation with a pre-licensing assessment, citing resource constraints, thus putting the Corporation at a competitive disadvantage in marketing the ACR. The third challenge was the replacement of the Corporation's aging facilities at Chalk River Laboratories, Ontario, for which no source had been identified for the significant funding needed.

We found that the Corporation had improved its practices in a number of other areas since our last examination in 2002. It had adequate systems and practices for managing current nuclear wastes and for keeping track of its compliance with environmental regulations.

### Blue Water Bridge Authority—Special Examination Report 2007

#### What we examined

The Blue Water Bridge Authority owns the Canadian portions of the Blue Water Bridge linking Point Edward, Ontario, and Port Huron, Michigan. Its mandate is to operate, maintain, and repair the Canadian portions of the Blue Water Bridge, including the approaches and adjacent structures it owns. The Authority finances its operations mainly with revenues from bridge tolls, and it generated a surplus in both 2005 and 2006. It has 78 employees, and expenses in 2006 totalled \$20.7 million.

The Authority was established in 1964, became a Crown corporation in 2002, and reports to Parliament through the Minister of Transport, Infrastructure and Communities. Our special examination covered the period between September 2006 and March 2007.

### Why it's important

The Blue Water Bridge is a major access point for commercial traffic to the south-central United States, handling about 10 percent of Canada's trade with the US. About 3.7 million passenger vehicles and 1.7 million commercial vehicles use the bridge each year.

### What we found

We identified a significant deficiency in the Authority's management of a contract for consulting services.

• The Authority paid a US consulting firm about \$7.5 million, over nine years, to promote the Authority's interests to US and Canadian government officials and politicians, and to provide various consulting services. It awarded the contract without competition and without the Board's approval. It did not specify the services to be performed and did not regularly assess the services it received; nor did it inform the Minister of the consultant's US activities. In December 2006, the Authority terminated the contract.

While we found that the Authority has good practices for planning and managing its structures, we noted opportunities for improvement in other areas.

- The Authority needed to develop policies and procedures for contracting with suppliers and monitoring their work; re-establish formal coordination of bridge maintenance activities with its US counterpart; develop an environmental policy setting out goals and activities; improve its strategic planning by identifying relevant objectives, strategies, and performance measures; monitor its performance; and provide more complete performance and strategic information in its corporate plans.
- The Board of Directors needed to exercise closer stewardship, particularly in its relations with the Authority's major stakeholders, in strategic planning, in approving contracts, and in assessing its performance and any impact the number of directors might have on its efficiency.

### Canada Lands Company Limited—Special Examination Report 2006

#### What we examined

Canada Lands Company Limited (Canada Lands) is a self-financing federal Crown corporation that reports to Parliament through the Minister of Transport, Infrastructure and Communities. Its mandate is to create value from federally owned strategic properties no longer required by the government for program purposes. It does this through one of its subsidiaries, Canada Lands Company CLC Limited (referred to in this report as the Corporation).

The Corporation purchases surplus strategic properties from the government at fair market value and then improves, manages, or sells them to produce the optimal benefits for the Government of Canada and local communities. Its real estate division and corporate staff are relatively small—93 employees. Its principal property, the CN Tower in Toronto, operates as a separate division with 452 employees.

The systems and practices of Canada Lands and its subsidiary, the Corporation, were the subject of our special examination, which covered the period from January 2005 to October 2005.

### Why it's important

The Corporation has purchased high-profile properties from the government, and the way it manages them determines whether the government will benefit financially and the communities where these properties are located will profit from the economic stimulus of property development, including local employment. Since its creation, it has distributed hundreds of millions of dollars to its shareholder, the Government of Canada.

### What we found

We identified no significant deficiencies in the systems and practices that we examined. We noted a number of good practices, some improvements since our previous special examination in 2000, and some areas for further improvement.

- Overall improvements in the land transfer process corrected what our 2000 special examination had identified as a significant deficiency.
- Canada Lands had the core elements of a good governance framework in place, and systems and practices were in place to ensure that the CN Tower is well maintained.
- The Corporation would benefit from better linking corporate objectives and performance reviews; assessing its training needs; using an integrated project management framework, and documenting and formalizing environmental management procedures.

### Canadian Air Transport Security Authority—Special Examination Report 2006

#### What we examined

The Canadian Air Transport Security Authority is responsible for key aviation security services at designated Canadian airports. In the 2005–06 fiscal year, its appropriations for operating and capital expenditures totalled \$425 million, and it had 248 employees. The Authority reports to Parliament through the Minister of Transport, Infrastructure and Communities. Our special examination covered the period between November 2005 and June 2006.

### Why it's important

The Authority is responsible for screening passengers, their baggage, and non-passengers entering secure areas to prevent any threat items from being carried onto aircraft. It is important that Canadians have confidence in the Authority's ability to play its key role in securing Canada's air transportation system.

#### What we found

We issued an adverse opinion on the Authority because of two significant deficiencies identified in the systems and practices that we examined, related to screening operations and its roles and responsibilities.

- The Authority did not have reasonable assurance that screening operations were conducted economically, efficiently, effectively, and in the public interest. The Authority contracts with private sector firms to provide passenger and carry-on baggage screening, but with only 29 Authority managers to oversee screening operations at 89 airports, it had limited oversight. Shortages of screening officers and high turnover rates contributed to additional pressures on the training system. A number of screening providers had to be replaced, for a variety of reasons, which was disruptive to screening operations. Non-passenger screening was another area of concern. The Authority had limited coverage in screening non-passengers at restricted area access points. We also noted weaknesses in the oversight of infiltration tests and the adequacy of performance measures.
- The Authority's mandate limits its roles and responsibilities to implementing specific parts of the aviation security system. However, it did not wish to be constrained by this limited mandate and would have liked to have more control over the way screening operations were conducted, the allocation of screening staff, and the selection of screening equipment. The Authority would have liked to have direct access to intelligence information. This had negatively affected the relationship between the Authority and Transport Canada. Management's efforts spent addressing these differences would have been better directed to the Authority's screening operations.

In other areas of the Authority's operations, we found no significant deficiencies. Since its inception in 2002, the Authority had taken several actions to improve its security measures. By 1 January 2006, it had achieved 100 percent screening of checked luggage for explosives in all 89 designated airports across Canada.

### Canadian Museum of Civilization Corporation—Special Examination Report 2006

#### What we examined

The Canadian Museum of Civilization Corporation comprises the Canadian Museum of Civilization, the Canadian War Museum, and the web-based Virtual Museum of New France. It is responsible for establishing, maintaining, and developing a collection of historical or cultural objects for research and posterity, with special but not exclusive reference to Canada. The Corporation reports to Parliament through the Minister of Canadian Heritage.

At the time of our special examination, the Corporation had about 460 employees. Its operating expenses for the 2005–06 fiscal year totalled about \$72 million. Our examination covered the period from June 2005 to January 2006.

### Why it's important

The Canadian Museum of Civilization and the Canadian War Museum are among the most popular cultural institutions in the country. Over the past five years, exhibitions have attracted more than 1.4 million visitors annually. More than 500,000 visitors attended the new Canadian War Museum in the first nine months of its opening in 2005. Both museums play a major role in exposing Canadian and foreign visitors to Canada's social, cultural, and military heritage.

#### What we found

We identified no significant deficiencies in the systems and practices we examined. We noted progress in many areas since our 2000 special examination. We also noted opportunities for improvement.

- The Corporation made progress in strategic planning and human resource management and in promoting cultural understanding and knowledge among the Canadian public.
- The Corporation would benefit from better monitoring of and reporting on the development of its collections, assessing its long-term contract for information technology services and establishing a related disaster recovery plan, improving its corporate risk management framework, and developing a strategy for broader dissemination of knowledge and information.

### Canadian Museum of Nature—Special Examination Report 2007

#### What we examined

The Canadian Museum of Nature is Canada's natural history museum. It has operations based in the Victoria Memorial Museum Building (a heritage building in Ottawa, Ontario) and collections and administrative operations in Gatineau, Quebec. It is responsible for establishing, maintaining, and developing a collection of natural history objects for research and posterity, with special but not exclusive reference to Canada. It reports to Parliament through the Minister of Canadian Heritage.

In the 2006–07 fiscal year, the Museum's total budget was \$29 million; the Government of Canada had also allocated \$216.6 million over a number of years to renovating the Victoria Building. The Museum had 168 full-time employees for its regular operations and 18 employees dedicated to the Victoria Building renovation. Our special examination covered the period between March and October 2006.

### Why it's important

The Museum plays a key role in discovering and describing new species of plants, animals, minerals, and fossils and in understanding their relationship to healthy and changing environments with a particular expertise in Arctic research. Its national role—to collect, preserve, and disseminate information on natural history issues, on Canada's behalf—makes it the primary source for the public, government, and private sectors to obtain accurate, up-to-date information on Canada's natural history. Furthermore, the Museum is the only federal organization with a mandate from Parliament to hold natural history collections for posterity.

#### What we found

We identified no significant deficiencies in the systems and practices we examined. We noted progress in many areas since our 2002 special examination and opportunities for improvement in other areas.

- The Museum had made progress in its research management, public education projects, information technology, human resource management practices, and strategic planning. The Victoria Memorial Museum Building Renewal Project was meeting the Museum's needs, and it had an effective management framework in place for the project. In light of its limited resources, it was important that the Museum continue to focus research resources on areas where it would have the most impact.
- The Museum needed to find a long-term solution to increase the funding required for operations, maintenance, and capital projects. It also needed to develop a collection development strategy, and complete its study of target audiences. The Museum would benefit from improved environmental management and stewardship. It had in place many elements of a well-functioning governance framework but needed to make improvements to meet current good governance practices.

### Canadian Tourism Commission—Special Examination Report 2006

#### What we examined

The Canadian Tourism Commission works with provincial and territorial governments and the Canadian tourism industry to promote the industry's interests and to market Canada as a tourist destination. The Commission receives an annual parliamentary appropriation of about \$79 million for program and operating costs; it reports to Parliament through the Minister of Industry. In late 2004, it had 156 employees. Our special examination covered the period between June and November 2005.

### Why it's important

Spending in Canada by international and Canadian travellers plays a crucial role in Canada's economy. Total tourism revenue for 2004 was \$57.5 billion. Canada competes with many countries for tourists, and the Commission, which is Canada's national marketing organization, needs solid market research and good systems and practices to fulfil its vision of "compelling the world to explore Canada."

#### What we found

We identified significant deficiencies in two areas of the Commission's systems and practices that we examined—strategic management and market research planning and accountability.

- In the area of strategic management, we found that its corporate plan and annual report—key documents for accountability—did not demonstrate how the Commission was fulfilling its mandate. A lack of clearly defined performance measures for all key activities made it difficult to report and account for the achievement of corporate objectives.
- In the area of planning and accountability for market research, we found that market research did not clearly meet the Commission's strategic needs. Marketing plans and project files did not always reflect the use of research results, and there was no accountability framework to ensure that individual marketing projects supported corporate objectives. In addition, the Commission did not regularly evaluate completed projects against program goals.

The Commission had additional opportunities for improvement. It needed to conduct risk assessments of major initiatives and projects, carry out quality control of all research activities and periodically assess their value and relevance, and develop systems to safeguard critical records of key information.

### Cape Breton Development Corporation—Special Examination Report 2008

### What we examined

The Cape Breton Development Corporation was established in 1967 to reorganize and rehabilitate the coal industry on Cape Breton Island. On 28 January 1999, the Government of Canada announced its decision to close the Phalen Colliery. Legislation enacted in June 2000 provided the Corporation with authority to sell its assets and eventually wind up its affairs. Plans for the dissolution of the Corporation have not been finalized and the date for dissolution has yet to be fixed by an order-in-council.

The Corporation reports to Parliament through the Minister of Natural Resources. In the 2006–07 fiscal year, it received \$66 million in government funding. As of 31 March 2007, the Corporation was responsible for managing obligations that totalled about \$470 million.

We examined the Corporation's systems and practices in the management of environmental obligations, compensation obligations, and land divestiture activities. Our examination covered the period from April to November 2007.

### Why it's important

As well as disposing of its assets in preparation for its eventual dissolution, the Corporation needs to manage its large legacy obligations, which include payments under the Early Retirement Incentive Plan, workers' compensation claims, and the remediation or reclamation of sites that have suffered environmental damage.

#### What we found

We found no significant deficiencies in the systems and practices we examined. However, we noted some areas where the Corporation would benefit from improving its practices.

- Management of environmental obligations. Since our 2003 special examination, the Corporation had focused significant resources on managing its environmental obligations. It had identified the sites that need remediation and had assessed and remediated a number of environmentally impacted sites, spending \$42 million since 2003. It would have benefited by finalizing its Environmental Management Plan, developing a mine water management plan, and improving its reporting of progress against timelines. In addition, although it had delegated site remediation to Public Works and Government Services Canada, liability still rested with the Corporation. It needed to enhance its site monitoring activities to ensure that all regulatory requirements were met.
- Compensation obligations. The Corporation had taken appropriate steps to manage Early Retirement Incentive Plans and workers' compensation obligations effectively and efficiently. While the Workers' Compensation Board of Nova Scotia had engaged a professional actuary to assist it in estimating the Corporation's compensation obligations, the Corporation would have benefited from formal arrangements with an independent actuary to ensure that its obligations were determined adequately from its perspective.
- Management of land divestiture. The Corporation had taken appropriate steps to manage the disposal of its properties and to consider the implications of environmental legislation for its property transfers. However, it needed to develop a formal strategic plan for land divestitures that could be used to monitor progress against timelines and targets.

### Farm Credit Canada—Special Examination Report 2007

#### What we examined

Farm Credit Canada (the Corporation) is a financially self-sustaining Crown corporation that provides specialized business and financial services and products to farming operations (including family farms) and to small and medium-sized businesses in rural Canada that are related to farming. Its major focus is on serving the needs of primary producers.

The Corporation has a \$13.2 billion loan portfolio and 1,300 employees, who operate out of 100 offices located primarily in rural Canada. Its head office is in Regina, Saskatchewan, and it reports to Parliament through the Minister of Agriculture and Agri-Food. Our special examination covered the period between February and May 2007.

### Why it's important

Farm Credit Canada is Canada's largest agricultural term lender, supporting a broad range of agricultural enterprises across Canada. It lends to all sectors of agriculture and serves more than 43,000 primary producers, suppliers, and processors. The Corporation also serves about 9,000 customers through its partners—agricultural or financial organizations—and delivers training and publications to 50,000 participants and subscribers.

#### What we found

We found no significant deficiencies in the systems and practices we examined. We identified improvements in a number of areas since our last special examination in 2002. In other areas, we made recommendations to help the Corporation improve further. We also found some issues of concern in a limited number of transactions.

- A limited number of transactions were not supported by complete and adequately documented
  business cases and/or did not respect contracting policies or practices generally followed in the public
  sector. The transactions included a significant training initiative, the outsourcing of the management
  of venture capital investments, the renegotiation and extension of a contract with a service provider
  (which happened before the end of its existing contract without a competitive bidding process),
  and certain compensation decisions related to bonuses and employee recognition programs.
- The Corporation was doing well in its lending operations, credit risk and portfolio management, environment and treasury operations, governance, strategic planning, performance reporting, marketing and communication, human resources, integrated risk assessment, and information technology. We did note some areas for improvement.

### National Capital Commission—Special Examination Report 2007

### What we examined

The National Capital Commission is the steward of federal lands and buildings in the National Capital Region. It is responsible for the care and maintenance of properties that include land, parks, green spaces, several major bridges, and hundreds of kilometres of pathways and parkways. In the 2006–07 fiscal year, the Commission had 450 employees and operating costs of about \$127.6 million. The Commission reports to Parliament through the Minister of Transport, Infrastructure and Communities. Our special examination covered the period between January and June 2007.

### Why it's important

In its planning for the use, preservation, and development of heritage buildings and land under its stewardship, the Commission plays an important role in ensuring that Canadians, now and in the future, continue to enjoy and experience the National Capital Region.

### What we found

We identified no significant deficiencies in the systems and practices we examined. We noted progress in some areas since our 2002 special examination. We also noted opportunities for improvement.

- The Commission had improved its consultations with those affected by its decisions as well as the information it made available on the results of consultations. However, it had not yet developed a master plan for urban lands in the National Capital Region, and it did not have a well-documented process to help ensure uniformity and consistency in decision-making and clearer reporting on national interest lands.
- The Commission had an environmental management framework for identifying and managing risks on its properties. It had reassessed the condition of the six official residences that it manages and had plans in place to address the most urgent structural needs to ensure the safety of the residents. Significant work remained in order to maintain and preserve the residences.
- The Commission's Board of Directors needed to reassess its present skills and expertise, identify gaps
  in the competencies it needs, and communicate those gaps to the federal government to consider in
  making new Board appointments.

# Report of the Auditor General of Canada to the House of Commons—May 2008

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